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EXECUTIVE OFFICE of HUMAN SERVICES

OFFICE of AUDITING and ACCOUNTS

FY 1988 ANNUAL LEGISLATIVE REPORT

JUNE 30, 1988

GOVERNMENT DOCUMENTS
COLLECTION

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EXECUTIVE OFFICE of HUMAN SERVICES

Michael S. Dukakis
GOVERNOR

Philip W. Johnston
SECRETARY

OFFICE of AUDITING and ACCOUNTS

Bruce F. Blaisdell
DIRECTOR



The Commonwealth of Massachusetts

Executive Office of Human Services

One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR

PHILIP W. JOHNSTON
SECRETARY

June 30, 1988

The Honorable Patricia McGovern
Chairman
Senate Committee on Ways and Means
State House
Room 212
Boston, MA 02133

Dear Chairman McGovern:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Senate Committee on Ways and Means in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

As you know, the governor has made a substantial commitment to our vulnerable and needy citizens. The agencies within the Executive Office of Human Services have enormous responsibilities in meeting that commitment. The human services providers are another essential component of the service delivery system. This administration also has made a major commitment to management reforms to ensure the performance of the human service agencies themselves, and of the providers in these state-funded contracts.

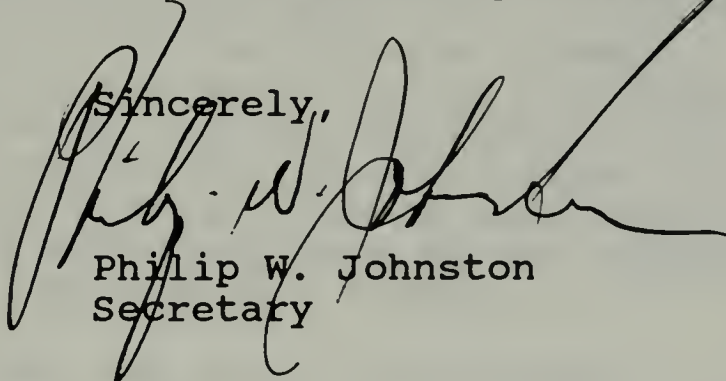
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I believe this report demonstrates that commitment. Where administrative deficiencies have been identified, our agencies have taken actions to rectify them. In those few instances in which any inappropriate activities have been discovered, we have acted promptly to address them.

As you will see, the cases and statistics included in this report look back at agency and contracting activity between fiscal years 1984 and 1987. As a result of similar findings in earlier audit reports and other studies, EOHS has initiated a number of management reforms in the purchase of service system over the past few years. These initiatives have been implemented beginning in FY 1986, and continuing through FY 1988 and future years. Audit reports of contracting activity in FY 1988 and subsequent years will appear in future legislative reports, and will include a review of systemic improvements resulting from these initiatives.

Should you, or members of your staff, have any questions regarding this report, or a specific audit, please contact Bruce F. Blaisdell, Director, Office of Auditing and Accounts, at 727-7600, extension 531.

Sincerely,

A handwritten signature in dark ink, appearing to read "Philip W. Johnston", is written over the typed name and title.

Philip W. Johnston
Secretary

PWJ/BFB/lj



The Commonwealth of Massachusetts

Executive Office of Human Services

One Ashburton Place, Room 1109

Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR

PHILIP W. JOHNSTON
SECRETARY

June 30, 1988

The Honorable Richard Voke
Chairman
House Committee on Ways and Means
State House
Room 237
Boston, MA 02133

Dear Chairman Voke:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the House Committee on Ways and Means in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

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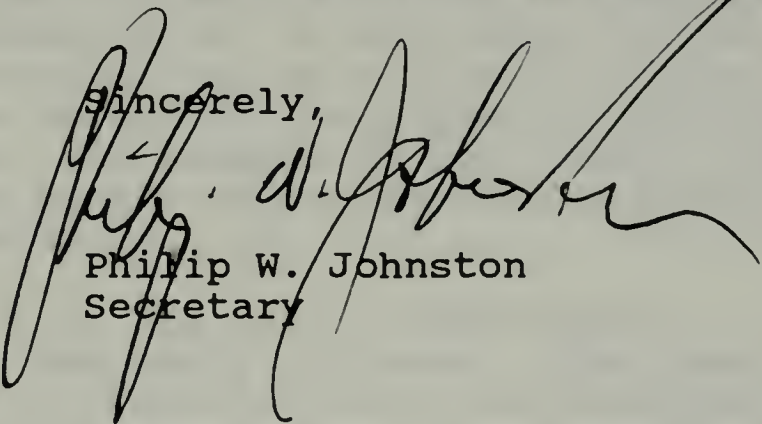
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The Commonwealth of Massachusetts

Executive Office of Human Services

One Ashburton Place, Room 1109

Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR

PHILIP W. JOHNSTON
SECRETARY

June 30, 1988

Mr. A. Joseph DeNucci
State Auditor of the Commonwealth
State House
Room 229
Boston, MA 02133

Dear Auditor DeNucci:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Rate Setting Commission in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

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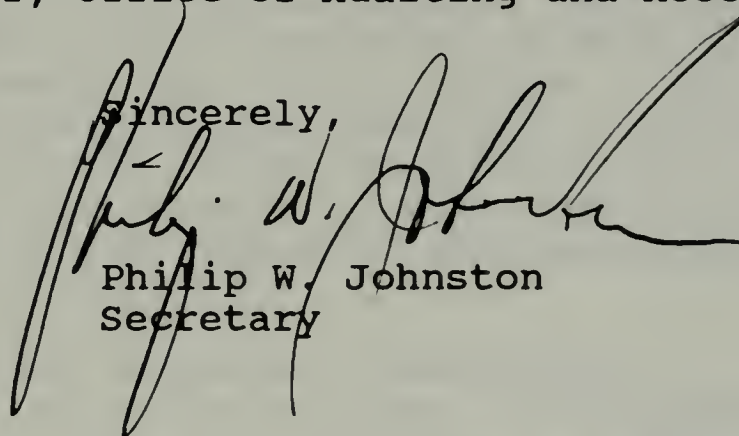
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Philip W. Johnston
Secretary

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One Ashburton Place, Room 1109
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MICHAEL S. DUKAKIS
GOVERNOR

PHILIP W. JOHNSTON
SECRETARY

June 30, 1988

Mr. Frank Keefe
Secretary
Executive Office for Administration and Finance
State House
Room 320
Boston, MA 02133

Dear Secretary Keefe:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Rate Setting Commission in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

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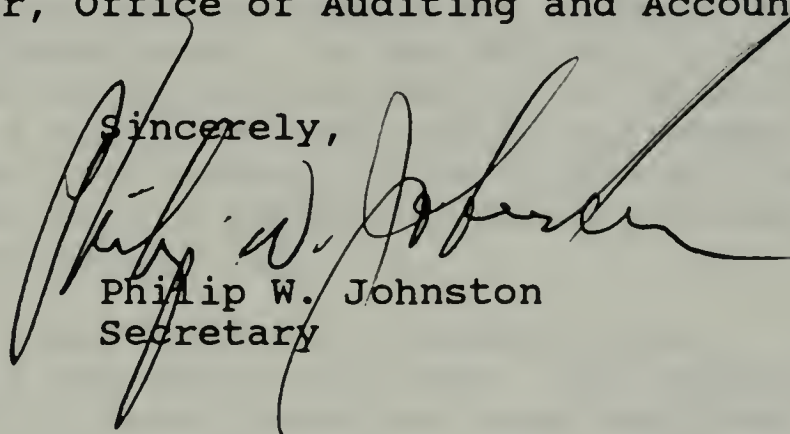
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One Ashburton Place, Room 1109

Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR

PHILIP W. JOHNSTON
SECRETARY

June 30, 1988

Ms. Katharine Pell
Chairperson
Rate Setting Commission
Two Boylston Street
Boston, MA 02116-4704

Dear Chairperson Pell:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Rate Setting Commission in accordance with the requirements of Chapter 164, Acts of 1988, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, to the office of the state auditor and to the secretary of the executive office for administration and finance a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

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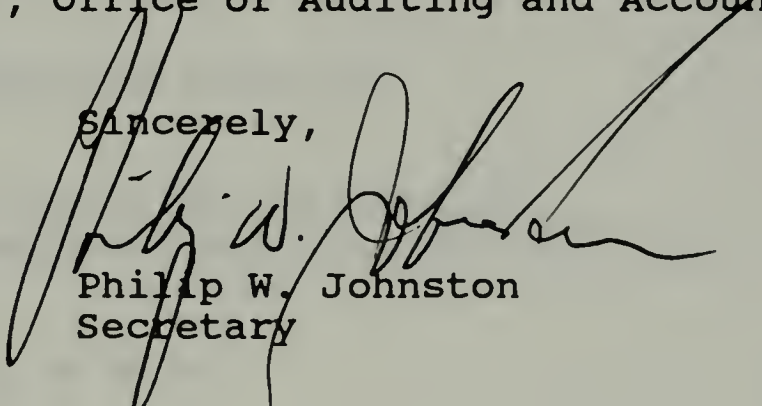
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concerning discrepancies in payment of wages; **233** cases to the Rate Setting Commission, concerning issues of potential adjustments to rates and of filing of cost data; **4** cases to the State Ethics Commission, concerning issues of conflict of interest; **51** cases to the Secretary of State, concerning discrepancies in corporate filing requirements. In this way, EOHS/OAA helps to ensure compliance in the system, case by case, issue by issue.

In addition to resolving audits of provider organizations, EOHS/OAA has resolved **32** audits of the EOHS agencies themselves, including agency divisions or facilities. These audits include those conducted by EOHS/OAA, and by the Auditor of the Commonwealth. Issues cited range from weaknesses in record-keeping and internal control systems for safeguarding assets, to lack of proper control over client funds, to potential lost revenue. In every case, EOHS/OAA required the agency to submit for review a written plan of actions taken to correct deficiencies cited within appropriate time frames. In **7** cases, a plan of action was analyzed by EOHS/OAA and found to be satisfactory. In the other **25** cases, the issues are currently under discussion. In some of these cases, EOHS/OAA also has referred audit findings to other state agencies. For example, EOHS/OAA brought **19** cases to the attention of the Department of the Comptroller (primarily concerning issues of failure to adhere to required state accounting procedures); and **1** case to the attention of the Attorney General (concerning misconduct by a state employee). Again, in this way, EOHS/OAA helps to ensure compliance by state agencies with statutory and regulatory requirements.

Another important function performed by governmental auditors generally, including EOHS/OAA, is to generate data for executive agency managers, and for the legislature, concerning systemic issues. The value of EOHS/OAA's contribution in such areas is harder to quantify. However, over the past several years, audit reports conducted and resolved by EOHS/OAA have contributed significantly to the analysis and discussion of many important management reforms or improvements implemented by EOHS and its agencies in the area of purchased services. These include: clarification of the roles and responsibilities of purchasing agencies, the Rate Setting Commission, and EOHS itself; issues concerning "surplus funds" and "deficits", so-called, and policies addressing those concerns, such as the EOHS Fiscal Procurement Resolution Policy (a.k.a. the "Re-Use and Recovery Plan"); the EOHS Early Warning and Vendor Assistance Program; the establishment of Pre-Qualification Standards for contracting; improvements to the EOHS General Conditions; and highlighting the need for the evaluation by EOHS agencies of the quality and effectiveness of programs of services to Commonwealth clients.

SECTION II:

OVERVIEW

The Executive Office of Human Services, Office of Auditing and Accounts (EOHS/OAA), is located in the cabinet secretariat which oversees sixteen line agencies, including major purchasing agencies (e.g., DMH, DMR, DSS, DPH) and the Rate Setting Commission. These agencies collectively purchase approximately **\$785 million** from human services providers per year.

During fiscal year 1988, several significant developments occurred affecting EOHS/OAA:

- EOHS/OAA engaged in protracted discussions with the Rate Setting Commission, regarding rate adjustments based on audit findings. RSC has adjusted rates accordingly, yielding potential recoveries of **\$220,971** in ten cases (see Section IV).
- Over the past four years, EOHS/OAA has recovered, or directed its agencies to recover, **\$2,370,670** in funds as a result of audit findings. Section III of this Report provides current information regarding the status of recovery activities.
- EOHS/OAA devoted a significant amount of attention within the audit resolution function to closure of older audit reports. In many cases, issues had been referred to purchasing agencies, RSC, tax agencies and other entities in prior years. Because responses which adequately addressed all aspects of the issues had not been received, those issues were still outstanding and audit files kept open. As noted in Section VI, EOHS/OAA was able to close **one hundred and twelve (112)** such cases during the past year as a result of improved understandings with other agencies concerning responses to audit referrals.
- EOHS/OAA continued in its long-term effort to promote internal adherence to federally-promulgated standards for governmental auditors. This included continuing to train staff and review draft audit reports, with particular emphasis upon quality of reports, and proper preparation of workpapers underlying audit findings. New Government Auditing Standards were issued by the Comptroller General of the United States, and EOHS/OAA began a program of training staff about the new Standards.
- EOHS/OAA began resolution of audits pursuant to the original Audit Resolution Policy in the middle of FY 1985. Developments which had

occurred in the purchase of service system since FY 1985 necessitated a revised Audit Resolution Policy. EOHS/OAA proposed a revised Policy, intended to clarify responsibility for resolution of significant issues which are noted in audit reports, in a manner consistent with legislative intent. The revised Policy was also consistent with the "Re-Use and Recovery Plan" and all other current EOHS policies. The Policy was widely discussed among interested parties, including EOHS agency representatives, legislative staff, representatives of the provider community, and other governmental auditors. The resulting revised EOHS Audit Resolution Policy, effective from December 1, 1987 forward, is set forth in its entirety in Section VIII. All cases included in this Report were resolved pursuant to the revised Policy.

Major office functions include:

1. Auditing purchase of service providers. EOHS/OAA has developed financial and compliance audit guides which are specifically tailored to the auditing of non-profit corporations. These guides are consistent with professional auditing standards set forth by the US Comptroller General. EOHS/OAA has developed the capacity to perform a multi-level audit program which includes: (1) a pre-audit survey and management review; (2) a limited scope financial and compliance audit; and (3) a full scope financial and compliance audit.
2. Auditing human service agency facilities and functions. EOHS/OAA has conducted, as needed, reviews of particular entities and functions within EOHS and its agencies. Furthermore, beginning in FY 1987, EOHS/OAA began a continuing series of program results audits, reviewing purchasing agency contracting processes and practices, to ensure compliance with applicable laws, regulations and policies.
3. Auditing federal block grants (Alcohol, Drug and Mental Health, and Preventive Medicine) consistent with OBRA requirements.
4. Coordinating EOHS agency audit activity to ensure that duplication of audit resources does not occur. This includes maintaining a regular dialogue with the Auditor of the Commonwealth, to coordinate related activity.
5. Resolving all types of audit reports to ensure that issues documented during audit are corrected by management. This includes reporting all pertinent information to the legislature, administrative officials, and other appropriate parties. Staff resolve audit reports prepared for EOHS/OAA by its own field audit staff and by contracted CPA firms, and direct and coordinate the resolution by EOHS agencies of audit reports prepared by other governmental auditors (e.g., Auditor of the Commonwealth). All such activity is in accordance with established EOHS audit resolution policies.

SECTION III:

RECOVERY OF FUNDS

During fiscal years 1985 through 1988, pursuant to the EOHS/OAA Audit Resolution Policy established in November, 1984, and revised December, 1987, EOHS/OAA has recovered, and has directed agencies to recover, funds from provider organizations, based on findings cited in audits conducted by both the Auditor of the Commonwealth and by EOHS/OAA. The Legislative Report submitted for Fiscal Year 1987 contained a section detailing the history and status of the recovery or resolution of **\$1,918,386** through June 30, 1987. In Fiscal Year 1988, an additional **\$452,284** was directed for recovery, bringing the four-year total to **\$2,370,670** (see TABLES I & II for a detailed breakdown).

A recent development has increased the recovery of funds directed by EOHS/OAA during Fiscal Year 1988. As a result of audit resolution referrals, the Rate Setting Commission has made rate adjustments totalling **\$220,971** (see Section IV). Based on those rate adjustments, EOHS/OAA has directed its agencies to recover the appropriate funds. We will report on the success of this procedure in the Fiscal Year 1989 Legislative Report.

TABLE I

EOHS DIRECTED RECOVERY

AGENCY	FY 83/84	FY 85	FY 86	FY 87	FY 88	TOTAL BY AGENCY
EOHS/OAA	\$518,470	\$ 64,500	\$ 24,196	\$ 9,638	\$ 7,300	\$ 624,104
DMH	--	88,059	495,829	298,899	134,123	1,016,910
DMR	--	--	--	--	209,400	209,400
DSS	--	21,370	99,271	101,525	14,556	236,722
DPH	--	22,234	36,386	8,807	48,962	116,389
DOC	--	4,460	--	--	--	4,060
DYS	--	--	35,156	56,293	4,274	96,173
MRC	--	--	11,049	22,644	28,732	62,425
MCDHH	--	--	--	--	4,487	4,487
TOTALS	\$518,470	\$200,223	\$701,887	\$497,806	\$452,284	\$2,370,670

TABLE II

STATUS OF RECOVERY

AGENCY	TOTAL DIRECTED RECOVERY	REPAY SCHEDULE	RECOVERED	RESOLVED	IN PROCESS
EOHS/ OAA	\$ 624,104	\$ 15,800	\$ 608,304	--	- -
DMH	1,016,910	30,837	207,517	\$ 213,240	\$ 565,316
DMR	209,400	--	--	--	209,504
DSS	236,722	84,272	31,525	27,300	93,625
DPH	116,389	--	56,214	25,510	34,665
DOC	4,060	--	4,060	--	- -
DYS	96,173	36,568	12,043	21,565	25,997
MRC	62,425	--	22,644	14,351	25,430
MCDHH	4,487	--	--	--	4,487
TOTALS	\$2,370,670	\$167,477	\$942,307	\$301,966	\$958,920

SECTION IV:

STATUS OF RSC AUDIT RESOLUTION ACTIVITY

During the second six months of Fiscal Year 1988, EOHS/OAA and RSC continued a series of regular meetings which began in the fall, in order to address ongoing issues affecting both organizations. A summary of actions taken follows.

As a result of discussions between EOHS/OAA and RSC, RSC agreed to recertify appropriate individual rates, in cases where it is documented in audit reports that disallowed expenditures of Commonwealth funds in unit rate contracts were part of the base of an individual provider unit rate, or of an add-on. In this six month period, RSC has begun to adjust these rates as agreed. RSC has recertified rates in ten such cases, for a total of **\$220,971** in potential recoveries. See Table III for details.

In the first six months of Fiscal Year 1988, for cases where audit findings disclosed inaccurate reporting of information on the RSC Cost Report, RSC began to send letters to providers, due to requests by EOHS/OAA. These letters indicated that inaccurate reporting is serious and will not be tolerated. RSC has continued to consistently send letters to providers in such cases.

Another area of discussion noted in the prior Legislative Report involved "disallowed costs". In order to clarify RSC's interpretation of specific "disallowed costs", pursuant to the RSC regulations, written policy statements were requested from RSC by EOHS/OAA. A statement on Bonuses that was outstanding, as of the December 31, 1987 Report, has been received and is in use by both EOHS/OAA and RSC. However, as was true in the December 1987 Report, statements on Excessive Costs and Salaries, which were expected to be forthcoming this spring, are still in progress; as such, they are of limited use at this time. Decisions regarding these issues continue to be made on a case-by-case basis. Further clarification of these statements continues to be a goal shared by RSC and EOHS/OAA.

TABLE III

POTENTIAL RATE ADJUSTMENTS BY

RSC FROM AUDIT FINDINGS

as of June 30, 1988

PROVIDER	AUDIT YEAR	RATE YEAR	ADJUSTMENT AMOUNT*	PURCHASING AGENCY
ADITUS, INC. (0-027-85)	1984	1986	\$ 1,552	DMH
AMEGO, INC. (0-446-87)	1985	1987	12,449	DMR
AMEGO, INC. (0-446-87)	1986	1988	23,291	DMR
AQUARIUS HOUSE, INC. (0-549-87)	1985	1987	2,362	DYS
AQUARIUS HOUSE, INC. (0-549-87)	1986	1988	2,362	DYS
CENTER FOR HUMAN RESOURCES DEVELOPMENT (0-242-86)	1986	1988	390	DMH
EUNICE MATSON FRIENDS OF THE RETARDED, INC. (0-017-86)	1986	1988	60,136	DMR
EUNICE MATSON FRIENDS OF THE RETARDED, INC. (0-017-86)	1985	1987	113,474	DMR
NORFOLK MHA, INC. (0-047-86)	1985	1987	2,157 988	DMH DSS
NORFOLK MHA, INC. (0-047-86)	1986	1988	906 864	DMH DSS
			<u>\$ 220,971*</u>	

DYS	\$ 4,724	DMR	\$ 209,400
DMH	5,005	DSS	1,842

* Subject to appeal by provider.

SECTION V:

SUMMARY OF FY 1988 RESOLVED AUDITS

EOHS/OAA has reported on 44 cases resolved from January 1 through June 30, 1988, in Section IX, Individual Summaries of Audit Cases Resolved During FY 1988. In addition, EOHS/OAA reported on 28 such cases in the December 31, 1987, Legislative Report, for a total of 72 cases resolved in Fiscal Year 1988. These include 35 audits conducted by the Auditor of the Commonwealth, and 37 audits conducted by EOHS/OAA, and in different instances included a review of fiscal or calendar year(s) 1984 through 1987. In addition, of the 72 audits resolved, 27 of them were on state facilities or offices within EOHS and its agencies. The findings cited are all material, but in some categories, they may vary from common infractions to serious compliance deficiencies. At the end of each case the resolution activity is summarized by naming the agency to which each issue was referred. A summary of the resolution of these 72 audits found that auditees were not in compliance in the following areas:

1. Internal Control Findings: Generally, these findings indicate weaknesses in the agency's systems for safeguarding assets. In 38 (out of 45) cases, the provider organizations were cited. Internal control findings usually also result in non-compliance with EOHS General Conditions, as well as non-compliance with other provisions of the contract.
2. Compliance with the Terms of the Contract: In 29 cases, providers were not in compliance.
3. Compliance with EOHS General Conditions: In 33 cases, providers were not in compliance.
4. Undocumented/Disallowed Costs: 23 cases contained findings of undocumented or disallowed costs which were referred to EOHS agencies for resolution.
5. Conflict of Interest: Violations by providers were found in 4 cases.
6. Compliance with RSC Regulations Regarding Filing and Accurately Completing the Rate Setting Commission Cost Report: In 22 cases, providers were not in compliance.
7. Compliance with Related Party Requirements: 8 of the provider organizations which engaged in related party transactions had not disclosed these as required.
8. Compliance with Filing Requirements of the Internal Revenue Service, the Department of Revenue, or the Division of Employment Security: In 20 cases, providers were not in compliance.
9. Compliance with the Filing Requirement of the Secretary of State: In 14 cases, providers were not in compliance.

10. Compliance with Filing Financial Statements with the Public Charities Division of the Attorney General's Office and Compliance with Statutory Requirement for Corporate Dissolution: In 8 cases, providers were not in compliance.
11. Compliance with Statutory Requirements Under the Jurisdiction of the Department of Labor and Industries Regarding Payment of Overtime: In 4 cases, providers were not in compliance.
12. Referrals to the Attorney General's Office Regarding Potential Fraud and Abuse: 5 provider cases were referred.
13. Referrals to the Office of Inspector General Regarding Potential Fraud and Abuse: 7 provider cases were referred.
14. Compliance with the American Institute of Certified Public Accountants, Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations: In 12 cases, providers were not in compliance.

The following compliance issues were cited at state facilities:

15. Internal Control Findings: Generally, these findings indicate weaknesses in the facilities' systems for safeguarding assets. In 12 (out of 27) cases, facilities were cited.
16. Lack of Proper Control of Inmate and Client Funds and/or Trust Funds: In 14 cases, facilities were cited.
17. Improper Control of Property and Equipment: In 11 cases, facilities were cited.
18. Uncollected Meal and Rent Revenue: In 4 cases, facilities were cited.
19. Stock Records were Improperly Maintained: In 4 cases, facilities were cited.
20. Uncollected Patient Revenue: In 3 cases, facilities were cited.

FINANCIAL IMPACT OF CASES RESOLVED

RESOLUTION OF AUDITS BY EOHS/OAA

	<u>FY'87</u>	<u>FY'88</u>
1. Recovery of funds by EOHS/OAA and by agencies directed by EOHS/OAA:	\$ 320,924	\$ 157,973
2. Recovery of funds by EOHS agencies, directed by EOHS/OAA as a result of vendor audits conducted by OSA:	176,882	73,340
SUBTOTAL:	<u>497,806</u>	<u>231,313</u>
3. Rate adjustments by RSC, as a result of referrals by EOHS/OAA:	0	220,971
TOTAL:	<u>\$ 497,806</u>	<u>\$ 452,284</u>

Amounts listed above include the 72 audits resolved during FY 1988, as well as the 85 audits resolved during FY 1987 and the follow-up to the State Auditor's Office Audits #86-1317-5, #87-1080-1, and #87-1080-02.

FINANCIAL STATUS OF PROVIDERS REVIEWED

The audit resolution process included a review of the financial status of the 45 provider organizations audited by EOHS/OAA and the Office of the State Auditor described in this Report and the prior Legislative Report. This review included an analysis of the fund balances or, in the case of for-profit organizations, retained earnings or stockholder's equity, stated on the providers' financial statements for the year(s) audited. In different instances, this included fiscal or calendar years 1984 through 1987. It should be noted that fund balances may include the value of buildings, furnishings and equipment, and investments, as well as cash.

1. **Positive Fund Balances:** In 33 cases, providers were found to have positive overall fund balances in the year(s) audited, from a minimum of \$4,643 to a maximum of \$2,374,295. These positive fund balances totalled \$9,640,186.
2. **Fund Deficits:** In 8 cases, providers were found to have overall fund deficits in the year(s) audited, from a minimum deficit of (\$1,802) to a maximum deficit of (\$139,020). These deficits totalled (\$337,605).
3. **Excess Revenues over Expenses:** In 22 cases, providers were found to have accrued overall excess revenues over expenses in the year(s) audited, from a minimum of \$548 to a maximum of \$108,946. These excess revenues over expenses totalled \$703,288.
4. **Excess Expenses over Revenues:** In 18 cases, providers were found to have accrued overall excess expenses over revenues in the year(s) audited, from a minimum of (\$577) to a maximum of (\$139,309). These excess expenses over revenues totalled (\$646,135).

- Notes:**
1. *In four audits resolved, an analysis of fund balances was not applicable.*
 2. *In five audits resolved, an analysis of excess (deficit) revenue over expenses was not applicable.*

ANALYSIS OF DONATED FUNDS

Chapter 761 of the Acts of 1985, the "Philanthropic Giving Act," incorporated into the General Laws as Section 77 of Chapter 6A, provides: "...*(T)he commission in carrying out its duties, in relation to the establishment of rates of payment and reimbursement for providers of health care services, ...shall not consider in any computation involving such actions, the following as resources of such providers of health care services: unrestricted grants, gifts, contributions, bequests, fund principal or endowment balances, or any income therefrom... Restricted grants, gifts, contributions, bequests, fund principal or endowment balances, ... used to defray allowable operating costs associated with providing general health supplies, care, social, rehabilitative or educational services, ... shall be offset by the commission against allowable operating costs...*" (emphasis added)

In an effort to continue to provide useful information to the legislature, executive agency managers, and other interested parties, EOHS/OAA has conducted the following analysis. EOHS/OAA has reported on 72 cases resolved in this Legislative Report and the prior Legislative Report for Fiscal Year 1988, of which thirty-three cases were not appropriate for this study. Of the remaining 39 cases, sources of funding can be defined as below. This analysis is not intended to be extrapolated across the entire system of approximately 1,300 service providers.

	<u>Amount</u>	<u>Percent</u>
● Total funding received from all sources:	\$ 51,578,482	(100%)
● Total funding received from EOHS agencies:	\$ 34,140,572	(66.2%)
● Total funding received from other fee payors for services: (e.g. other state agencies, municipalities, client fees, federal government)	\$ 14,181,050	(27.5%)
● Total funding received from other sources: (e.g. investment and interest income, restricted donations)	\$ 3,051,576	(6.0%)
● Total unrestricted donations, gifts, contributions:	\$205,284	(.3%)

SECTION VI:

STATUS OF AUDITS ASSIGNED

<u>Financial and Compliance Audits by CPA's</u>	<u>FY 1988</u>
Total Audits Assigned 7/1/87 to 6/30/88	<u>29</u>
<u>Financial and Compliance Audits by EOHS/OAA Staff</u>	
Total Audits Assigned 7/1/87 to 6/30/88	<u>34</u>
<u>Total</u>	<u>63</u>

SUMMARY OF CLOSED AUDITS

As reported in the last legislative report, EOHS/OAA has been very successful during Fiscal Year 1988 in closing audits. As stated in that report, an audit is closed when all deficiencies cited have been addressed and all appropriate funds have been recovered. This success was achieved by working with our agencies, especially concerning older audits, to resolve the outstanding deficiencies cited. During Fiscal Year 1988, EOHS/OAA has closed 112 audits. In contrast, EOHS/OAA closed 50 audits in all of Fiscal Year 1987 and only 16 audits in Fiscal Year 1986. In Fiscal Year 1985, 36 audits were closed as a result of the initial implementation of audit resolution activity.

SECTION VII:

SUMMARY OF RESPONSES TO AUDIT REFERRALS

During FY 1985, FY 1986, FY 1987 and FY 1988, EOHS/OAA reported on 327 audits in ten legislative reports. Pursuant to policy, EOHS/OAA distributes audit reports and requires corrective action from governmental agencies which possess the statutory or regulatory authority to correct deficiencies cited (these policies are more fully explained in Section VIII, Audit Resolution Procedures). The status of responses required by EOHS/OAA as of 6/30/88 include the following:

<u>FY'85-'87 Audit Referrals</u>					<u>FY'88 Audit Referrals</u>			
AGENCY	REF.	RESP. REC.	OUT.	*	REF.	RESP. REC.	RESP.DUE AFTER 6/30/88	*
AG/PC	24	6	18	1	12	7	3	5
DES	1	1	0	0	1	0	0	0
DMH	47	39	8	23	32	9	10	6
DOC	0	0	0	0	7	1	3	1
DOL	9	0	9	0	1	0	0	0
DOR	22	1	21	0	5	0	2	0
DPH	9	7	2	4	10	0	5	0
DPW	5	4	1	2	3	0	1	0
DSS	29	20	9	15	11	3	5	1
DYS	2	2	0	2	3	2	1	1
EOAF	1	1	0	0	1	0	0	0
HHS/IG	1	0	1	0	0	0	0	0
IRS	31	3	28	0	10	7	1	0
MPBA	6	0	6	0	0	0	0	0
MCB	0	0	0	0	1	0	1	0
MCDHH	0	0	0	0	1	1	0	1
MOIG	4	2	2	0	6	2	1	0
MRC	1	1	0	0	3	2	1	1
OCM	12	12	0	0	11	9	2	0
OGC	1	1	0	0	4	4	0	0
OCJ	0	0	0	0	1	1	0	0
RSC	61	61	0	6	21	14	6	2
SEC	2	2	0	0	1	1	0	0
SOHO	0	0	0	0	1	1	0	1
SOS	9	6	3	0	10	9	1	0
TOTALS	277	169	108	53	156	73	43	19

REF. = Referred to Agency

RESP. REC. = Response received

OUT. = Outstanding

* Response referred back to Agency for additional review.

EXPLANATION OF ACRONYMS

AG/PC	<i>Attorney General Public Charities Division</i>
DES	<i>Division of Employment Security</i>
DMH	<i>Department of Mental Health</i>
DOC	<i>Department of Correction</i>
DOL	<i>Department of Labor and Industries</i>
DOR	<i>Department of Revenue</i>
DPH	<i>Department of Public Health</i>
DPW	<i>Department of Public Welfare</i>
DSS	<i>Department of Social Services</i>
DYS	<i>Department of Youth Services</i>
EOAF	<i>Executive Office for Administration and Finance</i>
HHS/IG	<i>US Department of Health and Human Services, Office of Inspector General</i>
IRS	<i>Internal Revenue Service</i>
MBPA	<i>Massachusetts Board of Public Accountancy</i>
MCB	<i>Massachusetts Commission for the Blind</i>
MCDHH	<i>Massachusetts Commission for the Deaf/ Hard of Hearing</i>
MOIG	<i>Massachusetts Office of Inspector General</i>
MRC	<i>Massachusetts Rehabilitation Commission</i>
OCM	<i>EOHS Office of Contract Management</i>
OGC	<i>EOHS Office of General Counsel and Investigations</i>
OCJ	<i>EOHS Office of Criminal Justice</i>
RSC	<i>Rate Setting Commission</i>
SEC	<i>State Ethics Commission</i>
SOHO	<i>Soldiers' Home Chelsea</i>
SOS	<i>Secretary of State</i>

SECTION VIII:

AUDIT RESOLUTION PROCEDURES

Audit resolution activity on the individual cases summarized in this Report occurred during the six months ended June 30, 1988.

EOHS/OAA resolution policies require that audit reports and the resultant resolution recommendations be distributed to responsible government officials and organizations that have the statutory or regulatory authority to take corrective administrative action. To insure implementation and maintenance of sound management practices, EOHS/OAA requires that the primary EOHS purchasing agency and the provider organization enter into a written plan of action to correct administrative deficiencies. Audit issues which affect rates of reimbursement paid to provider organizations are routinely referred to the Rate Setting Commission for rate redetermination or other action, or to the purchasing agencies for reimbursement adjustment or budget renegotiation. Others matters are referred to the state or federal governmental agency which has jurisdiction over the issue.

As of December 1, 1987, a new EOHS/OAA Audit Resolution Policy was put into place. After a series of meetings with EOHS/OAA representatives, purchasing agencies, RSC, legislative representatives, other governmental auditors, and the provider community, the policy was finalized. EOHS purchasing agencies and RSC indicated their acceptance of and agreement to adhere to the new Policy. All audits whose summaries are found in this Legislative Report were resolved pursuant to the new Policy. The complete revised Audit Resolution Policy is reprinted following this section.

EOHS AUDIT RESOLUTION POLICY

(Effective December 1, 1987)

EOHS/OAA resolution policies dictate that audit reports and the resultant resolution recommendations be distributed to responsible government officials and organizations that possess the statutory or regulatory authority to take corrective administrative actions. This is intended to be consistent with the requirements of Standards for Audit of Governmental Organizations, Programs, Activities, and Functions ("Yellow Book") promulgated by the Comptroller General of the United States, and other standards applicable to governmental auditors.

In order to insure the implementation and maintenance of sound management practices, EOHS/OAA requires that the primary EOHS purchasing agency and the provider organization enter into a written plan of action to correct administrative deficiencies (e.g., poor or non-existent books or records, lack of internal controls, inadequate safeguards of client funds, etc). This plan must specify the manner in which each deficiency will be addressed and the

date by which that action will be completed, and must be signed by both parties. Each plan is reviewed by EOHS/OAA for adequacy before the audit is considered closed.

In addition, audit findings which affect reimbursement paid to provider organizations (e.g., disallowed costs, overbilling, underspending, undocumented expenses, over and/or underutilization) are routinely referred to the Rate Setting Commission for rate adjustments or other action, or to purchasing agencies for reimbursement adjustments or budget renegotiation. Other matters are referred to the state or federal governmental agency which has jurisdiction over the issue. All policies and procedures contained herein pertain only to resolution of audit findings, resulting from testing and reporting compliance with existing standards, including other policies issued by EOHS.

A summary of present EOHS/OAA resolution policies includes the following:

<u>Condition</u>	<u>Referred To</u>
1. Administrative Deficiencies	EOHS Purchasing Agencies
2. Non-performance of Services	EOHS Purchasing Agencies
3. Conflict of Interest	State Ethics Commission Inspector General
4. Disallowed Costs/Expenses	Rate Setting Commission EOHS Purchasing Agencies
5. Failure to File Documents Required by Law	Secretary of State Attorney General State Taxing Agencies Federal Taxing Agencies
6. Failure to Make Payments Required by Law	State Taxing Agencies Federal Taxing Agencies Attorney General
7. Fraud	Attorney General Inspector General
8. Misconduct of State Employee	State Ethics Commission Attorney General Inspector General
9. Non-Compliance	Rate Setting Commission EOHS Purchasing Agencies EOHS Office of Contracts Management Inspector General
10. Overbilling	Rate Setting Commission EOHS Purchasing Agencies Inspector General
11. Underspending	Rate Setting Commission EOHS Purchasing Agencies
12. Undocumented Expenses	Rate Setting Commission EOHS Purchasing Agencies Inspector General
13. No Material Finding	File Closed

Reimbursement Findings

I. Recovery of Funds Under All Contracts

A. *Non-Performance Under the Contract*

Non-performance under contracts means services were not delivered, or services delivered did not meet standards established by the purchasing agency in the contract. In the event of non-performance, recovery of funds is appropriate. Such cases will be resolved through negotiations between the provider and the purchasing agency. Once a determination of non-performance is made, the focus of discussion should be the manner of resolution which is most appropriate under the circumstances, and if not already determined, the value of services which were not rendered.

B. *Fraudulent Billing*

All reimbursements to a provider which have been determined to be supported by fraudulent documentation will be disallowed. Funds fraudulently acquired must be promptly recovered in full and returned to the Commonwealth. All such cases will be referred to the Attorney General, and the Inspector General.

C. *Undocumented Reimbursement*

In the present system of EOHS contract requirements, General Conditions, Rate Setting Commission requirements, and purchasing agency requirements, under all contracts, regardless of the reimbursement mechanism, providers are required to maintain appropriate documentation of actual allowable expenses, revenues, and service provision. In the event of a determination of a failure to maintain adequate and appropriate documentation, depending upon the circumstances, recovery of funds or rate adjustments may occur as a basis for resolution, in accordance with the reimbursement mechanism. In the case of contractual relationships other than cost reimbursement contracts, other evidence, in the form of credible and convincing alternative documentation, that the services in question were actually rendered and that allowable expenses in question were actually incurred will be considered. In such cases, however, in order to prevent reoccurrence of recordkeeping deficiencies in subsequent years, satisfactory written resolution of all such audit determinations must have been reached.

D. *Disallowed Expenses*

Under all contracts, reimbursement to providers is permitted only for actual allowable expenses, as defined in EOHS contract requirements, General Conditions, Rate Setting Commission requirements, and/or purchasing agency requirements. Depending upon the circumstances, actual expenses for unallowable items may be subject to recovery or rate adjustments, in accordance with the reimbursement mechanism.

E. *Billing Errors*

Errors in invoices submitted to the Commonwealth for reimbursement, which do not constitute fraud, will be referred to the purchasing agency to be rectified in the most appropriate manner possible under the circumstances.

F. *Significant Underspending for Staffing*

For purposes of this section, review of the cost of staffing shall take into consideration payroll, the cost of relief staff and consultants, compensated overtime performed by existing staff, related taxes, related benefits, and the like.

For purposes of resolution of audit findings concerning reimbursement, a determination that any program or cost category for which spending for staffing during the period was below 90 percent of the funds budgeted or allocated for staffing in any portion of the contracts funding such program or cost category, shall be referred to the purchasing agency for a determination whether recovery of funds is appropriate.

2. Underspending or Overspending in Unit Rate Contracting

A. *Class Rate Contracting*

Under class rate contracting, the provider is paid a per-unit rate which has been established by the Rate Setting Commission for all programs offering a particular type of service. In the event of a determination of any variance between reimbursement received under contracts funded by class rates, and a provider's actual allowable expenses associated with such contracts, the information will be reported to the Rate Setting Commission. If any variance is greater than five percent or \$50,000, whichever is less, the RSC will be requested to resolve the determination by specifically identifying the manner in which the information has been or will be taken into account in prospective class rate determinations. If the variance is less than that, no response will be required. All such variances will also be reported to the purchasing agency for informational purposes.

B. *Non-Negotiated Historical Cost-Based Unit Rate Contracting*

Under these contracts, the provider is paid a per-unit rate which has been established solely by the Rate Setting Commission for a specific program on the basis of historical costs of the program. In the event of a determination of any variance between reimbursement received under contracts funded by such rates, and a provider's actual allowable expenses associated with such contracts, the issue will be resolved in the same manner specified above for Class Rate Contracting.

In any case resolved pursuant to II (A) or (B) above, if upon further review the Rate Setting Commission finds that fraudulent billing, undocumented reimbursement, disallowed expenditures or significant underspending for staffing occurred, it should resolve such determinations in a manner consistent with I (A through E) above.

C. *Negotiated Historical Cost-Based Unit Rate Contracting*

Under these contracts, the provider is paid a per-unit rate for a specific program on the basis of a budget negotiated between the purchasing agency and the provider and approved by the Rate Setting Commission. In the event of a determination of any variance between reimbursement received under contracts funded by such rates and a provider's actual allowable expenses associated with such contracts, the information will be reported to the purchasing agency. If any variance is greater than five percent or \$50,000, whichever is less, the purchasing agency will be required to resolve the determination by specifically identifying the circumstances or practices which caused the variance to occur, and the manner in which the information has been or will be taken into account in prospective contract negotiations to prevent such circumstances or practices from causing reoccurrence of such variances. If the variance is less than that, no response will be required. All such variances, and all agency responses concerning such variances, will also be reported to the Rate Setting Commission for informational purposes.

However, if upon further review the purchasing agency finds that non-performance under the contract, fraudulent billing, undocumented reimbursement, disallowed expenditures, or significant underspending for staffing occurred, it must resolve such determinations in a manner consistent with I (A through E) above.

SECTION IX:

INDIVIDUAL SUMMARIES OF AUDIT CASES RESOLVED DURING FY 1988; JANUARY 1, 1988 THROUGH JUNE 30, 1988 ALPHABETICAL LISTING OF ORGANIZATIONS

This section provides a summary of audit report findings and resolution activity which took place during the period January 1, 1988 to June 30, 1988. More detailed information is available upon request.

	<u>Auditee Name</u>	<u>Audit #</u>	<u>Page#</u>
1.	Ad Lib, Inc. *	88-4005-3	26
2.	Associated Day Care Services of Metropolitan Boston, Inc. *	88-4008-3	27
3.	Bay Cove Mental Health Center DMH *	86-256-1	28
4.	Cape Cod and the Islands Community Mental Health and Retardation Center DMH *	87-992-1	29
5.	Cape Cod Mental Health Association, Inc.	0-219-87	30
6.	Child Development Programs of Cape Ann, Inc. *	88-4006-3	32
7.	Counseling Services, Inc.	BC-574-87	33
8.	Cushing Hospital DPH *	86-248-1	36
9.	Danvers State Hospital DMH *	87-249-1	38
10.	Department of Correction *	86-145-1	39
11.	Department of Mental Health District I *	86-237-1	40

** Audited by the Auditor of the Commonwealth.*

	<u>Auditee Name</u>	<u>Audit #</u>	<u>Page#</u>
12.	Department of Mental Health District II *	86-238-1	42
13.	Department of Mental Health District V *	87-243-1	43
14.	Department of Mental Health District VI (Metro Service Bureau) *	87-242-1	44
15.	Department of Mental Health West-Ros Park Area Office	0-560-87	45
16.	Division of Disability Determination Services, Massachusetts Rehabilitation Commission *	86-55-5	46
17.	Franklin/Hampshire Community Mental Health Center, Inc.	0-134-87	47
18.	Habilitation Assistance Corp.	0-517-87	50
19.	Hampshire County Home Care Services, Inc.	0-548-87	55
20.	Harbor Health Services, Inc.	BC-571-87	57
21.	Harrington Memorial Hospital, Inc.	C-436-87	59
22.	Haverhill/Newburyport Human Services, Inc.	0-320-87	60
23.	Charles W. Hogan Regional Center and John T. Berry Rehabilitation Center DMH *	87-247-1	63
24.	Interseminarian-Project Place, Inc.	0-205-87	65
25.	Massachusetts Mental Health Center DMH *	87-258-1	68
26.	Massachusetts Treatment Center at Bridgewater DMH *	87-497-1	70
27.	MCI-Boston Pre-Release Guidance Center DOC *	86-835-1	71

** Audited by the Auditor of the Commonwealth.*

	<u>Auditee Name</u>	<u>Audit #</u>	<u>Page#</u>
28.	MCI-Cedar Junction DOC *	87-152-1	72
29.	MCI-Framingham DOC *	87-148-680	73
30.	MCI-Norfolk DOC *	87-150-1	74
31.	MCI-Park Drive Pre-Release Center DOC *	86-927-1	75
32.	MCI-Plymouth DOC *	87-151-1	78
33.	Montachusett Regional Young Men's Christian Association, Inc.	0-545-87	80
34.	Northeastern Family Institute, Inc. *	87-1080-5	82
35.	Our House, Inc. *	88-4007-3	84
36.	Peaceful Movements Committee, Inc.	BC-571-87A	85
37.	Rate Setting Commission *	87-34-1	86
38.	Lemuel Shattuck Hospital DPH *	87-300-1	87
39.	Soldiers' Home Chelsea *	86-65-1	89
40.	Dr. Harry C. Solomon Mental Health Center DMH *	87-250-5	91
41.	Southeastern Correctional Center DOC *	87-990-1	93
42.	Tewksbury Hospital DPH *	87-304-5	94
43.	Westborough State Hospital DMH *	87-268-1	96
44.	Women's Services Center of Berkshire County, Inc.	0-553-87	97

** Audited by the Auditor of the Commonwealth.*

Auditee Name:

**Ad Lib, Inc.
442 North Street
Pittsfield, MA 01201**

Audit #: 88-4005-3

Ad Lib, Inc., a non-profit corporation, provided counseling and training services to deaf and hearing-impaired individuals during the audit period. The provider contracted with the Massachusetts Rehabilitation Commission and the Massachusetts Commission for the Deaf and Hard of Hearing and was audited by the Auditor of the Commonwealth for the fiscal years ended June 30, 1986 and 1987. A summary of the audit report findings included the following:

- A. The provider did not have an allocation system during the audit period that permitted ready identification of the sources of income and expenses.

In its response, the provider stated that an allocation system had been established.

- B. The provider received \$29,917 in reimbursement under cost reimbursement contracts for payroll expenses that were not incurred.
- C. The financial statements of Ad Lib, Inc., audited by Riley, Haddard, and Lombardi, CPA's, indicated a \$50,869 fund balance as of December 31, 1986. This balance included excess income over expenses of \$14,004 which accrued during FY 1986.

Total revenue received by the provider for this same period amounted to \$158,949, of which \$152,024 was supported by the Massachusetts Rehabilitation Commission and the Massachusetts Commission for the Deaf and Hard of Hearing. The remaining \$6,925 was generated from contributions, investment income, grants, and miscellaneous revenue.

EOHS agency revenues received by the provider, \$152,024, represented 96 percent of total income, while other revenues represented four percent of total income.

EOHS/OAA requested that MRC negotiate an administrative agreement with Ad Lib, Inc. which addresses finding A in accordance with the provider's response as contained in the report, and the recovery of \$25,430 noted in finding B. MCDHH was requested to recover the remaining funds noted in finding B, totaling \$4,487. In addition, MRC and MCDHH were requested to review the billing practices which permitted the over-reimbursement to occur. Finding C was referred to RSC for informational purposes. It should be noted that MRC and MCDHH have negotiated agreements with the provider to recover the funds cited above.

Auditee Name:

**Associated Day Care Services
of Metropolitan Boston, Inc.
7 Marshall Street
Boston, MA 02108**

Audit #: 88-4008-3

Associated Day Care Services of Metropolitan Boston, Inc., a non-profit corporation, provided individualized day care services to children of one month to seven years of age. The provider contracted with the Department of Social Services and was audited by the Auditor of the Commonwealth for the period ended June 30, 1987. A summary of the findings contained in the report is as follows:

- A. ADCS did not perform written six month progress reports for four of its six day care sites. The Auditor sampled thirty-four client files and found that thirty did not contain the necessary fiscal year 1987 reports. Twenty-five had only one of the two reports required. Five had no reports. These reports were required by the Office for Children.
- B. ADCS did not document that it held at least two fire drills a year. The Office for Children required that these fire drills be performed. The provider stated that the fire drills were performed but that they were not documented.

EOHS/OAA requested that DSS negotiate an administrative agreement with Associated Day Care Services of Metropolitan Boston, Inc., which addresses all issues cited in the audit in accordance with the provider's response as contained in the report. All findings have been referred to the Office for Children for informational purposes.

Auditee Name:

**Bay Cove Mental Health Center
Department of Mental Health
170 Morton Street
Jamaica Plain, MA 02130**

Audit #: 87-256-1

The Bay Cove Mental Health Center is an area office of the Department of Mental Health and was audited by the Auditor of the Commonwealth for the period July 1, 1984 to June 30, 1986. A summary of the findings contained in the report, issued December 31, 1987, is as follows:

- A. The Center did not maintain adequate accounting records to accurately reflect the status of its client accounts, and failed to properly segregate duties for personnel handling those funds.
- B. The Center lacked adequate internal controls over payroll activity, including a failure to retain records for overtime, an absence of time sheets for several employees, and a lack of updated conflict of interest statements in personnel files. In its response, the Center indicated that it had instituted the proper controls as a result of the audit.
- C. The Center did not have adequate control over inventory and equipment as required by the Comptroller's Accounting Manual. In its response, the Center stated that it would correct these deficiencies.
- D. The Center overpaid rent to its landlord in the amount of \$708 for the month of January, 1986. Prior to the end of field work, this money had been recovered.

EOHS/OAA requested that DMH submit a written response describing actions taken to address these findings, since the issuance of the report.

Auditee Name:

**Cape Cod and the Islands
Community Mental Health and Retardation Center
Department of Mental Health
County Road
Pocasset, MA 02559**

Audit #: 87-992-1

The Cape Cod and the Islands Community Mental Health and Retardation Center is an organization within the Departments of Mental Health and Mental Retardation. The Center provided inpatient and outpatient services to residents of Cape Cod and the Islands during the audit period. The Center was audited by the Auditor of the Commonwealth for the period July 1, 1984 to June 30, 1986. A summary of the findings contained in the report, issued on May 26, 1987, is as follows:

- A. One weakness was noted in the Center's internal controls. A perpetual inventory of equipment was not maintained.
- B. The Center did not conduct an annual physical property count for fiscal years 1985 and 1986 as required. This same finding was also noted in a prior audit report.
- C. The Center engaged a food-service vendor for fiscal years 1985 and 1986 without the benefit of competitive bidding.
- D. The Center did not have a signed agreement with the food-service vendor for fiscal year 1985, and a contract amendment for \$8,000 for fiscal year 1986 could not be located.

EOHS/OAA requested that DMH submit a written response, describing actions taken to address these findings, since the issuance of the report.

Auditee Name:

**Cape Cod Mental Health Association, Inc.
175 West Main Street
Hyannis, Ma. 02601**

Audit #: 0-219-87

Cape Cod Mental Health Association, Inc., a non-profit corporation, provided services to a variety of clients during the audit period. The provider contracted with the Department of Mental Health, the Department of Public Health, and the Department of Social Services and was audited for the fiscal year ended June 30, 1986. A summary of the audit report findings included the following:

- A. There were two significant weaknesses noted in the provider's internal controls.
- B. The provider's Fiscal Year 1986 Financial Statements did not contain the required DSS compliance letter.
- C. The provider failed to issue IRS forms 1099 to another entity and to an individual for calendar year 1985.
- D. The provider issued three IRS forms 1099 and one 1096 form for calendar year 1986, that were in variance with the amounts actually paid to individuals. The total variance was \$4,640 for the three forms 1099 and the form 1096.
- E. A review of the provider's RSC-1100 Cost Report, Schedule 22, determined that the provider generated excess revenue over expenses in two (2) negotiated unit rate contracts:
 - 1. One DSS contract generated \$3,041, or 7 percent of excess income over expenses.
 - 2. Another DSS contract generated \$14,750, or 12 percent of excess income over expenses.
- F. During a review of rental payments made by the provider in fiscal year 1986, the following related party relationships and transactions were noted:
 - 1. The provider paid \$20,300 to Asclepius Corporation for rental expense at 460 West Main Street, Hyannis, Ma. Asclepius Corporation was formed to benefit Cape Cod Mental Health Association, Inc., and two other non-profit entities. These three corporations provided the funding with which Asclepius Corporation purchased the property. The provider's executive director was one of the original directors of Asclepius Corporation and was its clerk as of the close of field work on February 29, 1988. The provider did not properly disclose this related party transaction on its RSC-1100 Cost Report as required.
 - 2. The provider made payments totalling \$26,672 to Asclepius Corporation. Through a year-end adjustment, as noted above,

\$20,300 of this amount was allocated to the provider's fiscal year 1986 rental expense for 460 West Main Street, Hyannis, Ma. The remaining \$6,372 was carried as an account receivable. The provider did not maintain a written instrument for this receivable.

- G. The financial statements of Cape Cod Mental Health Association, Inc., audited by Andrew C. Fantasia, CPA, indicated a \$174,753 fund balance comprised of a \$165,550 unrestricted fund and a \$9,203 restricted fund as of June 30, 1986. This balance included excess income over expenses of \$64,344, comprised of \$59,128 of unrestricted funds and \$5,216 of restricted funds, which accrued during fiscal year 1986.

Total revenues and support received by the provider for this same period amounted to \$1,951,144, of which \$1,412,814 was generated by DMH, DSS, and DPH contracts and support. Of the \$504,451 generated from other fee-for-service payments, \$288,163 was from Medicaid, private insurance, and client fees; \$139,133 was from town appropriations; \$31,648 was from the United Way; \$31,507 was from HUD; and \$14,000 was from subcontract income. Additionally, \$33,879 was received from donations, fund-raising, interest, and miscellaneous income.

EOHS agency revenues received by the provider, \$1,412,814, represented 72 percent of total income, while other fee payors for service represented twenty-six percent of total income. The remaining revenues represented two percent of total income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Cape Cod Mental Health Association, Inc. which addresses findings A and D. EOHS/OAA also requested that DSS negotiate an administrative agreement with the provider, that addresses finding B and also the appropriateness of the recovery of funds from finding E. The RSC was requested to review finding F and take whatever action is deemed appropriate. All other findings were referred to the above-named agencies as well as to DPH for informational purposes. It should be noted that finding C was referred to the IRS for its review, to take whatever action is deemed appropriate.

Auditee Name:

**Child Development Programs of Cape Ann, Inc.
120 Maplewood Avenue
Gloucester, MA 01930**

Audit #: 88-4006-3

Child Development Programs of Cape Ann, Inc., a non-profit corporation, provided child care, early childhood education, family support, and other social services to families residing in the Cape Ann area during the audit period. The provider contracted with the Department of Social Services, and was audited by the Auditor of the Commonwealth for the fiscal year ended June 30, 1987. A summary of the audit finding is as follows:

Three officers of the provider were authorized to charge business expenses on company credit cards. One of these officers, the Executive Director, also charged non-emergency, personal expenses. Using DSS funds, the provider paid the full amount of monthly credit card billings, and sought reimbursement from the Executive Director for personal expenses charged on the credit cards. As a result, the Executive Director carried balances as high as \$2,031, and when he resigned in January, 1987, he had an outstanding personal expense balance of \$1,127. During the year and one half between the resignation of the Executive Director and the end of field work (June 1, 1988), all but \$177 of those funds had been recovered. According to the current Executive Director, credit cards are no longer used for business or personal expenses.

EOHS/OAA requested that DSS negotiate an administrative agreement with Child Development Programs of Cape Ann, Inc. to address this deficiency in accordance with the provider's response and to document recovery of the remaining \$177 noted in the finding.

Auditee Name:

**Counseling Services, Inc.
6 Hamilton Place
Boston, MA 02108**

Audit #: BC-574-87

Counseling Services, Inc., a non-profit corporation, operated an outpatient mental health clinic serving the gay and lesbian community of Greater Boston during the audit period. The provider contracted with the Departments of Mental Health and Public Health and was audited for the calendar year ended December 31, 1984. A summary of the audit findings included the following:

- A. Many weaknesses were noted in the provider's internal controls. In its response, the provider indicated that it was taking measures to correct many of the deficiencies.
- B. During the calendar year ended December 31, 1984, the provider did not maintain adequate financial records including cash disbursements, cash receipts, a payroll journal, accounts receivable and accounts payable. According to provider personnel this was caused because the provider did not have a business manager during 1984. As a result, financial records for this period had to be reconstructed in 1986. The provider's CPA prepared audited financial statements for 1984 and 1985 subsequent to this reconstruction. In its response, the provider stated that it had corrected these deficiencies.
- C. Because of the condition noted in B above, the provider filed its 1984 Federal Tax Form 990 several months late. In addition, the Forms 990 filed for calendar years 1984 and 1986 were incomplete.
- D. Because of the condition noted in B above, the provider filed its 1984 Attorney General's Form PC several months late. In addition, the PC filing did not include a copy of the IRS Form 990 and audited financial statements as required. Auditors reviewed the Attorney General's Form PC for 1986 to determine if the systems had been improved and noted that the Form PC was not filled in completely.
- E. Financial data reported on the RSC Cost Report, IRS Form 990 and Attorney General's Office Form PC, all filed for calendar year 1984, did not agree.
- F. The provider failed to file an Annual Report with the Secretary of State's Office for fiscal year 1984 as required.
- G. The provider failed to file quarterly Massachusetts WR-1 Wage Reports during fiscal year 1984 as required. It was noted that the provider did file the proper forms for all four quarters at a later date.
- H. Because of the poor financial condition of the provider, the provider failed to make timely and adequate payroll tax payments to the Internal Revenue Service, the Department of Revenue and the Division of Employment

Security. As of December 31, 1984, the provider owed a total of \$68,884 to these three agencies. By June 30, 1987, this liability had been reduced to \$42,990.

- I. The provider's financial statements for the years ended December 31, 1984, 1985 and 1986 all indicated fund deficits. According to provider personnel, this condition was due to limited funding resources which created a financial strain on the agency as a whole. The outstanding payroll taxes, and related interest and penalty charges noted in H above, made up a large portion of the fund deficit. It was noted that the Department of Mental Health compelled the provider to submit a corrective action plan prior to contracting for fiscal year 1987 as required.
- J. During calendar year 1984, the provider had three outstanding notes payable to current and ex-members of the Board of Directors. These related party transactions were not disclosed on Federal Tax Form 990, Attorney General's Office Form PC, and RSC 1100 Cost Report, as required.
- K. During 1983, one board member made a loan of \$1,500 to the provider. The signed agreement stated that the loan was interest free if repaid by August 15, 1984; however, if the loan was not repaid by that date, a finance charge of 18 percent would be assessed. The provider did not repay the loan by August 15, 1984 and the finance charge became due and payable. RSC Regulations state that interest charges on a loan from a related party may not exceed the interest of U.S. Treasury Notes issued at the same time.
- L. During calendar year 1984, the provider failed to maintain an inventory list of equipment as required by the EOHS General Conditions.
- M. The provider could not locate the contract proposal for the DPH contract. Therefore, auditors could not complete accurate contract compliance testing. This condition was in violation of EOHS General Conditions.
- N. The provider inadvertently billed both DMH and DPH for a portion of the salaries of four employees. The total amount of double-billing was \$18,299.
- O. The financial statements of Counseling Services, Inc., audited by Creelman and Smith, P.C., indicated a (\$96,278) fund deficit as of December 31, 1984. This balance included excess expenses over income of (\$28,705) which accrued during fiscal year 1984.

Total revenues and support received by the provider for this same period amounted to \$160,991, of which \$82,948 was received from contracts with the Departments of Mental Health and Public Health. Of the \$57,062 in other fee for service payments, all was generated from patient service fees and private insurance. Additionally, \$20,981 was received from the City of Boston, donations and grants, fundraising and miscellaneous income.

EOHS agency revenues received by the provider, \$82,948, represented 52 percent of total income, while patient service revenues represented thirty-five percent of total income. The remaining revenues represented thirteen percent of total income.

EOHS/OAA requested that DMH negotiate a written administrative agreement with Counseling Services, Inc. which addresses findings A, B, E, H and L in accordance with the provider's response as contained in the report, and also addresses the recovery of \$18,299 noted in finding N. DPH was requested to negotiate an administrative agreement with the provider which addresses finding M. Findings B, H, I and O were referred to the Executive Office of Human Services, Office of Contracts Management to determine if the provider is included in the Vendor Assistance Program. The Attorney General's Office was requested to review findings D, E and J, and the Secretary of State's Office was requested to review finding F, to determine if the provider is in compliance with filing requirements. The RSC was requested to review findings E and J for administrative action and finding K to determine if this information has an effect on the rates of reimbursement to the provider. All other findings were referred to each agency for informational purposes. Findings C and J were referred to the IRS, and finding G was referred to DOR. EOHS/OAA was subsequently notified that this provider had ceased providing services.

Auditee Name:

**Cushing Hospital
Department of Public Health
Dudley Road
Framingham, MA 01701**

Audit #: 86-248-1

Cushing Hospital was maintained under the Department of Public Health to provide for the care and custody of elderly persons. The Hospital received funding from both the Department of Mental Health and the Department of Public Health. The Hospital was audited by the Auditor of the Commonwealth for the period July 1, 1983 to June 30, 1985. A summary of the audit findings contained in the report, issued April 28, 1987, is as follows:

- A. One weakness was noted in the Hospital's internal controls.
- B. The Hospital purchased in excess of \$40,000 in goods and services, all individual purchases in excess of \$500, without submitting purchase requisitions to the State Purchasing Agent. The purchases were made by submitting individual invoices for less than \$500, equaling the purchase amounts.
- C. During fiscal year 1985, the Hospital did not charge an estimated \$3,375 for meals provided, as required by a purchase agreement with Adult Day Care Center, Inc. Both parties entered into this agreement on June 28, 1982. In its response, the Hospital stated that it would attempt to recover the uncharged amount.
- D. The following conditions were found in the Hospital's storeroom:
 - 1. The requisition books used to document the flow of materials through the storeroom were improperly maintained by the storekeeper. These books should have been maintained by the individual departments which made the requisitions. In its response, the Hospital stated that requisition books had been distributed to the individual departments.
 - 2. The Hospital did not record as inventory in its stock ledgers \$680,652 expended for housekeeping, laboratory and medical supplies and expenses.
- E. The Hospital did not maintain financial disclosure forms for \$157,214 of \$169,047, or ninety-three percent, of payments to consultants from its "03" subsidiary account.
- F. The Hospital expended \$8,602 from the Friends of Cushing Fund without specific guidelines governing the use of the funds. Analysis revealed that \$2,295 of the expenditures should have been made from the Hospital's maintenance appropriation.
- G. Certain accounting and administrative deficiencies included:

1. During calendar years 1984 and 1985, the Hospital did not issue IRS forms 1099 to three individuals who were paid a total of \$3,100.
 2. The Hospital did not submit required quarterly Canteen income and expenditure reports per an EOAF memorandum dated September 13, 1983.
- H. During the audit period, the Hospital did not collect \$33,832 in potential revenue, due to not raising its charges for meals and rent. The Auditor calculated lost revenue as \$2,686 in meals charges and \$31,146 in rent. The Hospital charged rates which preceded 801 CMR 4.03-4.04 which raised the allowable rate for meals and rent. The Hospital did not raise its rates based on a DPH memorandum which stated that due to confusion in implementing the new rates, the old rates should be charged until further notice.
- I. The Hospital maintained insufficient controls over income collection from its leased coin operated washing machines.

EOHS/OAA requested that DPH respond in writing describing actions taken to address each of the weaknesses cited since the issuance of the report.

Auditee Name:

**Danvers State Hospital
Department of Mental Health
450 Maple Street
Hathorne, MA 01937**

Audit #: 87-249-1

The Danvers State Hospital is an organization controlled by the Department of Mental Health. The Hospital was audited by the Auditor of the Commonwealth for the period July 1, 1986 to December 31, 1986. A summary of the finding contained in the report, issued on October 30, 1987, is as follows:

The Hospital did not place patients' funds in individual interest-bearing accounts when required, costing clients approximately \$1850 in unearned interest income.

EOHS/OAA requested that DMH submit a written response describing actions taken to address this finding, since the issuance of the report.

Auditee Name:

**Department of Correction
100 Cambridge Street
Boston, MA 02202**

Audit #: 86-145-1

The Department of Correction is an organization within the Executive Office of Human Services. The Department was audited by the Auditor of the Commonwealth for the period July 1, 1984 to June 30, 1986. A summary of the finding contained in the report, issued on March 5, 1987, is as follows:

The Department was unable to locate supporting documentation for fiscal year 1984 expendable trust fund disbursements totalling \$530,006 and fiscal year 1984 bond fund disbursements totalling \$36,995. In its response, the Department indicated that it could not locate actual copies of the standard invoices supporting these expenditures; however, all standard invoices are currently kept on file for audit purposes.

EOHS/OAA requested that DOC submit a written response describing actions taken to address this finding, since the issuance of the report. DOC has responded indicating that all deficiencies have been corrected.

Auditee Name:

**Department of Mental Health
District I
12-26 Market Street
Northampton, MA 01060**

Audit #: 86-237-1

The Department of Mental Health-District I is a regional office of the Department of Mental Health and was audited by the Auditor of the Commonwealth for the period July 1, 1983 to June 30, 1985. A summary of the audit findings contained in the audit report, issued on August 4, 1987, is as follows:

A. The Auditor noted several deficiencies in the purchase of service contracts executed by DMH District I.

1. The Auditor concluded that \$21,053 in incorrect or questioned costs were reimbursed by DMH. These costs included incorrect or overbilled amounts in DMH contracts. In its response, District I stated that all funds noted either had been recovered or were in the process of being resolved.
2. Auditors concluded that \$54,142 in funds were due to DMH as a result of over-reimbursements in cost reimbursement contracts, and accrual of excess income over expenses in unit rate contracts. DMH had failed to pursue collection or resolution of these monies because DMH's area offices, which contracted directly with these providers, had not consistently reviewed the providers' audit reports or pursued collection of monies owed prior to re-contracting with the provider agencies. The auditors also noted that an additional \$34,963 was being repaid to DMH through repayment schedules as a result of audits conducted by EOHS/OAA. In its response, District I stated that some of the providers had repaid the amounts in question.
3. Three providers that contracted in District I had been cited, by the U.S. Department of Labor, for violations of the Fair Labor Standards Act in that employees were not compensated at time and one half for overtime. The Department of Labor determined that these three providers had to repay their employees a total of \$271,725 in back wages. The providers involved were Hampden County Association for Retarded Citizens, Inc. (\$116,845), Berkshire County Association for Retarded Citizens, Inc. (\$111,778), and Hawthorn Services, Inc. (\$43,102). According to DMH area office personnel, many providers could have experienced similar problems if the Department of Labor conducted reviews of their agencies, since many did not pay the appropriate rates. As of the end of field work, one provider had negotiated a repayment schedule with its employees, and DMH-District I had submitted supplemental budget requests for the other two providers.

4. Auditors noted that three providers had limited board of directors meetings, or had maintained incomplete board meeting minutes. This condition could have weakened the control structure within these organizations.
- B. A previous audit had noted deficiencies in the property and inventory controls at DMH-District I. While significant improvements had been made at the District I office, deficiencies again were noted in five DMH area offices and several providers contracting in District I. For example, the Auditor had problems locating and identifying equipment sampled, and also experienced difficulty finding required inventory tags on items.
- C. A previous audit of District I noted instances of non-competitive bidding for equipment purchases. This audit also noted that some equipment items were purchased through incorrect subsidiary accounts, and orders were split to circumvent state bidding procedures.
- D. DMH District I operated a community residential program for mentally retarded adults. This program was staffed by state employees who were previously assigned to work at Northampton State Hospital. The Auditor's review of payroll for this program revealed that overtime totalled 11.5% and 11.6% of total payroll in fiscal years 1984 and 1985, respectively. The report concluded that this use of overtime was excessive, and that the funds would have been better used by adding direct care positions if needed. In its response, the Center stated that it has corrected the problems associated with this program.

EOHS/OAA requested that DMH submit a written response describing actions taken to address these findings, since the issuance of the report.

Auditee Name:

**Department of Mental Health
District II
305 Belmont Street
Worcester, Ma. 01605**

Audit #: 86-238-1

The Department of Mental Health District II is a regional office of the Department of Mental Health and was audited by the Auditor of the Commonwealth for the period July 1, 1983 to June 30, 1985. A summary of audit findings contained in the report, issued on August 4, 1987, is as follows:

- A. The Auditor concluded that \$333,752 in funds were due to the Department of Mental Health from eight service providers as a result of receiving excess income over expenses during fiscal years 1984 and 1985. It was noted in the DMH response that the particular contracts in question were all unit rate contracts. This same finding was noted in a prior audit covering the period July 1, 1978 to June 30, 1980.
- B. The Auditor noted that the District II office was not properly identifying property and equipment as required.
- C. During the audit, client case files were reviewed. The Auditor was unable to locate the case files for clients that were transferred from one provider to another. These records were not at the Area Office or at either of the two providers that were involved.
- D. In a prior audit report, it had been noted that one provider, Cooperative Human Services, Inc., received a total of \$116,172 in excess revenues over expenses as of June 30, 1979. As of June 30, 1980 this figure had been reduced to \$41,375. The Auditor concluded that \$41,375 was still outstanding as of June 30, 1985. However, EOHS/OAA had entered into an agreement with CHS to recover this amount based on a prior audit, and the last payment of \$4,487 was made in December of 1983, and the case was closed.

EOHS/OAA requested that DMH submit a written response describing actions taken to address findings A, B, and C since the issuance of the report.

Auditee Name:

**Department of Mental Health
District V
Gifford Building
Hodges Avenue Extension
Taunton, MA. 02780**

Audit #: 87-243-1

The Department of Mental Health District V is a regional office within the Department of Mental Health and was audited by the Auditor of the Commonwealth for the period July 1, 1986 thru March 31, 1987. A summary of the finding contained in the audit is as follows:

Several significant weaknesses were noted in the District V Office's payroll system.

EOHS/OAA requested that DMH submit a written response describing actions taken to address this finding.

Auditee Name:

**Department of Mental Health
District VI
(Metro Service Bureau)
25 Stanlford St.
Boston, MA 02114**

Audit #: 87-242-1

The Department of Mental Health District VI (Metro Service Bureau) is a regional office of the Department of Mental Health, and was audited by the Auditor of the Commonwealth for the period July 1, 1984 thru June 30, 1986. A summary of the finding contained in the audit, issued on April 3, 1987, is as follows:

The Department of Mental Health District VI failed to reconcile its 1986 advance funds, which caused the advance account to be out of balance by \$14,992.

The DMH District VI responded that the DMH Central Office was in the process of reconciling the 1986 advance funds to the Comptroller's records of daily transactions.

EOHS/OAA requested that DMH submit a written response describing actions taken to address this finding since the issuance of the report.

Auditee Name:

**Department of Mental Health
West-Ros Park Area Office
780 American Legion Highway
Roslindale, Ma. 02131**

Audit #: 0-560-87

The West-Ros Park Area Office is an area office in District VI of the Department of Mental Health. A review of the Social and Rehabilitative Service Procurement and Contracting System was conducted by EOHS/OAA for the period July 1, 1985 to June 30, 1986. A summary of the findings contained in the review is as follows:

- A. One weakness was noted in the auditee's internal controls. The job descriptions for the positions of Mental Health and Mental Retardation Coordinators did not contain minimum education or experience requirements. Completed Position Description Forms containing the above-mentioned requirements for these positions were provided with the auditee's response.
- B. Pre-qualification reviews of potential providers were not conducted at the Area Office level as required. In its response, DMH stated that the EOHS Procurement and Contracting Manual for FY 1986 was issued too late to permit effective implementation of this requirement.
- C. The timetable utilized by the Area Office for the completion of the RFP process did not allow for the completion of the required thirty-day review by an advisory board.

EOHS/OAA requested that DMH submit a written response which addresses findings A, B, and C.

Auditee Name:

**Division of Disability Determination Services,
Massachusetts Rehabilitation
Commission
110 Chauncy Street
Boston, MA 02111**

Audit #: 86 - 55 - 5

The Division of Disability Determination Services is a division within the Massachusetts Rehabilitation Commission. The Division was audited by the Auditor of the Commonwealth for the period July 1, 1983 to June 30, 1985. A summary of the finding contained in the report, issued on June 19, 1987, is as follows:

There was lack of control over Property and Equipment. The inventory records did not contain identification numbers, cost figures, or locations for items listed. No permanent identification tags were observed on the equipment. Additionally, physical inventory of equipment was not taken as required. In its response, the Division stated that these weaknesses have been corrected.

EOHS/OAA requested that MRC submit a written response describing actions taken to address this finding, since the issuance of the report.

Auditee Name:

**Franklin/Hampshire Community
Mental Health Center, Inc.
17 New South Street
Northampton, Ma. 01060**

Audit #: 0 - 134 - 87

Franklin/Hampshire Community Mental Health Center, Inc., a non-profit corporation, provided a variety of services to clients in the Franklin and Hampshire Counties area during the audit period. The provider contracted with the Departments of Mental Health, Public Health, Youth Services, and Social Services and was audited for the fiscal year ended June 30, 1986. A summary of the audit report findings included the following:

- A. There were two significant weaknesses noted in the provider's internal controls.
- B. The provider did not report actual units of service on its RSC 1100 Cost Report as required.
- C. The auditors were unable to verify all units of service for the Shelter Program billed to the Department of Social Services. During the test period, June 1986, only 32% of units of service could be verified by daily logs maintained by the provider.

Undocumented units billed to DSS at a rate of \$66.89 per day, for 30 days, amounted to \$2,006.70 in unallowable reimbursements.

- D. The auditors selected a sample of twenty-five client files to test billing rates. From the files examined, auditors noted that the service was provided by a state employee for 222 out of 265 units of service. Rates negotiated by DPH allowed a \$19.96 billing rate for services performed by an agency employee and \$6.39 for a state employee. All of the units tested were billed at the rate for service performed by an agency employee, and, therefore, the Commonwealth was overbilled in the amount of \$3,013.
 - E. The provider's executive director was under contract to the board of directors as a consultant to the agency. Monthly compensation billed to DMH and DSS through the consultant line item included a base salary, plus a fringe benefit allowance of \$10,698, which amounted to 17.5 percent of the base amount (\$61,135 total in FY 1986). Annual paid leave for this person included twenty-five (25) days of vacation time, eighteen (18) days sick time, and all holidays for which the organization was closed.
- F/HCMHC provided facilities, equipment, supplies, and space necessary for the director to satisfy his obligations under the contract. Additionally, expenses for travel and meals incurred while carrying out his duties were reimbursed.

- F. A psychiatrist on the provider's payroll was paid on a part-time basis throughout the fiscal year. The psychiatrist also billed the provider for private consultation time.

Neither this individual's time sheets nor the consultant billings detailed the actual hours of service.

- G. Consultants were reimbursed for their travel expenses during the fiscal year.
- H. The provider's audited financial statements for fiscal years 1984, 1985 and 1986 did not segregate expenditures for program services from administrative costs and general expenditures. This practice did not permit the disclosure of general and administrative expenditures as required.
- I. The Statement of Functional Expenses included in the provider's audited financial statements identified only expenses associated with cost reimbursement contracts, defined as restricted funds. These contracts supported programs which were also funded through unit rate contracts, federal grants, and other sources. Actual expenses for the cost of each contract could not be identified. In addition, the Statement of Functional Expenses omitted entirely the Amherst Shelter Program for Adolescents, which was funded primarily by the Department of Social Services through a unit rate contract.
- J. The provider depreciated on its Fiscal Year 1986 Financial Statements an estimated \$25,000 worth of equipment that was purchased with state funds.
- K. The provider listed a building on Schedule 18 of the RSC 1100 Cost Report that was depreciated for a length of time less than that allowable. Usage of the shorter service life, 20 instead of 33 years, led to an excess of \$431 in depreciation expense for FY 1986.
- L. The provider did not have on site copies of signed contracts from DMH for the period that was audited.
- M. A prior audit conducted by the Office of the State Auditor identified \$15,038 that was to be repaid to the Commonwealth. The provider issued a series of checks to repay this money during fiscal years 1985 and 1986. However, during a review of the provider's bank reconciliations it was revealed that one check in the amount of \$5,000 remained outstanding at the close of audit field work, November 21, 1986. This was five months after the provider repaid the money to the Franklin/Hampshire Area Office.
- N. The financial statements of Franklin/Hampshire Community Mental Health Center, Inc., audited by Lester Halpern and Company, Certified Public Accountants, indicated a \$122,409 fund balance as of June 30, 1986, comprised of a \$27,337 general fund, and a \$95,072 capital asset fund. This balance included excess income over expenses of \$548 which accrued during fiscal year 1986.

Total revenues and support received by the provider for this same period amounted to \$3,545,765, of which \$3,042,894 was supported by Departments of Mental Health, Public Health, and Social Services contracts. Of the \$492,972 generated from other fee-for-service payments, \$135,483 was

received from client fees, \$5,552 from Franklin and Hampshire counties, \$90,000 from a Federal Grant, \$258,612 from Medicaid, and \$3,325 from the Massachusetts Department of Education's Bureau of Nutrition. Additionally, \$9,899 was received from donations, bequests, investment income, and the film library.

EOHS/OAA agency revenues received by the provider, \$3,042,894, represented 86 percent of total income, while other fee payors for service represented fourteen percent of total income. The remaining revenues represented less than one percent of total income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Franklin/Hampshire Community Mental Health Center, Inc., which addresses findings A, E, F, and L. In addition, the DMH Central Office was requested to review the activities of the Area Office noted in finding M. EOHS/OAA also requested that DSS negotiate an administrative agreement with the provider that addresses findings H and I and also the recovery of funds totalling \$2,007 from finding C. In addition, DPH was requested to negotiate an agreement that addresses the recovery of \$3,013 that was identified in finding D. Furthermore, the RSC was requested to review findings B, E, G, J, and K and to take whatever action is deemed appropriate. All other findings were referred to the above-named agencies as well as to DYS, DPW, and DOE for informational purposes.

Auditee Name:

**Habilitation Assistance Corp.
Five Town Square
P.O. Box 3388
Plymouth, MA 02361**

Audit #: 0-517-87

Habilitation Assistance Corporation, a for-profit corporation, operated three day habilitation centers serving clients with mental retardation, and physical and/or developmental disabilities during the audit period. The provider contracted with the Department of Public Welfare, the Department of Mental Health, and the Massachusetts Commission for the Blind and was audited by EOHS/OAA auditors for the fiscal year ended June 30, 1986. A summary of the findings contained in the report is as follows:

- A. Several weaknesses were noted in the provider's internal controls.
- B. The provider did not submit an IRS Form 1096 for calendar year 1985. The provider stated that it was not able to obtain this form and had instead submitted a letter of transmittal. The provider did not have a record of this letter at its administrative offices.
- C. The provider had not filed the Secretary of State's Annual Report for fiscal years 1985 and 1986. These reports subsequently have been filed.
- D. During fiscal year 1986, the provider received \$6,400 in rental revenue which was not recorded as income on its books and records. The provider recorded the money as a reduction to rental expense.
- E. The provider's financial statements did not segregate income by funding source. The accounting system did not allow for an audit trail to trace income to individual funding sources, programs or contracts.
- F. During a normal audit procedure of revenue verification, the following unusual business and accounting practices were noted in the provider's books and records:
 - 1. A review of the provider's cash receipts for fiscal year 1986 showed that the provider received \$156,844 from its related management company, Snug Harbor Support Services, Inc. These funds were transferred through the provider to a variety of other parties by means of wire transfers and certified bank checks (see finding F-2). The provider stated that this money was not recorded as revenue because it was not earned from providing services. The provider chose to record this money as a liability to its management company. However, as of June 30, 1986, the provider's balance sheet showed a receivable due from the management company.
 - 2. Between July and October 1985, the provider made 22 wire transfers and/or certified check payments totaling \$120,576 out of the \$156,844 deposited into its operating and payroll accounts by its management

company, Snug Harbor Support Services, Inc. These wire transfers and/or certified check payments were made at the directive of the president of the management company.

Further review of the \$120,576 disbursed determined the following:

- a. Five wire transfers totaling \$32,547 were to a related organization named Hallgarth Institute.
- b. Three wire transfers totaling \$25,900 were made to a related organization named Community Assistance Corporation, in Washington, D.C.
- c. Three wire transfers totaling \$17,800 were made to a related organization named Human Services Resource Center, Inc.
- d. Eleven wire transfers and/or certified check payments totaling \$44,329 were made to ten other individuals and corporations in Massachusetts, Ohio, Vermont, and Maryland, including HAC itself.

The provider's president had an ownership or related interest in all of the corporations listed in (a) through (c) above. He noted on Schedule 27 of the Habilitation Assistance Corporation fiscal year 1986 RSC 1100 cost report the related party relationships with Hallgarth Institute and Community Assistance Corporation. He had been an employee of Human Services Resource Center, Inc. and had served with its owners as management of other organizations, including Hallgarth Institute and Community Assistance Corporation.

None of these wire transfers and/or certified bank checks were for provider program expenditures. There was no reason given why these funds went to these payees.

- G. During fiscal year 1986, the provider paid its management company, Snug Harbor Support Services, Inc., \$21,000 to provide administrative services, including financing, billing and receiving of program income, accounting, bill payment services, and health and liability insurance plans. This expense was listed on the provider's RSC 600-B program budgets and RSC 1100 cost report as professional fees and contracted services. The management company controlled all aspects of the provider's organization, including the checking account. There was, however, no supporting documentation to verify that such services had been rendered, or that payments had been properly authorized. The provider did not have a fiscal year 1986 contract with SHSS, Inc. and the invoices submitted as documentation had not been cancelled with the payment amount, check number, and initials of the person recording the transaction. It was the practice of SHSS, Inc. to take its monthly fee directly from the bank account that it controlled for the provider.
- H. A review of the provider's financial records disclosed irregularities which could have been material over time if not corrected. Examples were identified as follows:

1. The provider's books of original entry were maintained entirely in pencil. There were several instances of erasures and line outs which could cause the audit trail to be questioned.
 2. Journal entries were not maintained manually prior to the complete conversion to a computerized system. This could have caused some entries to be incompletely recorded or not recorded at all.
- I. The provider did not maintain a complete fixed asset listing. The lists it maintained only contained a description of the assets, location and aggregate costs. A complete listing would have included individual costs, funding sources, and the dates of acquisition. Complete inventory listings should also segregate equipment purchased with state funds as well as private and donated funds.
 - J. The provider's president and bookkeeper did not maintain time sheets to document \$43,707 of payroll during fiscal year 1986.
 - K. The provider's president stated that, during fiscal year 1986, the provider expended \$21,600 for health insurance costs incurred in the prior fiscal year. He stated that the provider had been a member of a "self-insurance" pool with its management company in fiscal year 1985. When this insurance contract ended effective June 30, 1985, there were outstanding medical expenses that had not been paid. This was not realized until after the provider had terminated its contractual relationship with the management company, in December 1985. The provider paid these bills in fiscal year 1986. The \$21,600 noted above was included in Schedule #7 of the RSC 1100 cost report under medical insurance.
 - L. During fiscal year 1986, provider employees contributed \$10,726 to health insurance through a payroll deduction. However, in a review of the provider's RSC 600-B program budgets for fiscal year 1986, it could not be confirmed that estimates of these contributions were used to reduce the provider's program costs.
 - M. The provider maintained a personnel policy whereby employees received four (4) weeks of paid vacation after one (1) year of employment. This resulted in \$9,715 of questionable vacation expense.

During the time that employees were taking the above noted vacations, relief staff at a cost totaling \$9,958 was used to provide client services.

- N. The provider reported on its RSC 1100 cost report \$6,819 in depreciation on "acquisition costs" of \$22,500 paid on July 1, 1984. Through interviews with the provider's president, it was determined that the \$22,500 was paid to Human Services Resource Center, Inc. to "purchase" lists of clients served by the programs which the provider was taking over from HSRC, Inc. effective July 1, 1984. The provider's president stated that the "purchase" of these lists represented the right to continue to bill for services provided to these clients without interruption and contained some measure of goodwill.

These clients were referred to the provider by the Commonwealth. Auditors questioned the ability of HAC to "purchase" such lists for any intrinsic value.

- O. A review of consultant payments noted that \$16,374 was paid to one individual during calendar year 1985, for which the provider was not supplied with adequate documentation. The consultant submitted monthly billings which only contained total hours and the rate billed. The documentation should have contained the name of the client served, date and type of services, and administrative approval for all payments.
- P. The provider's president paid himself interest, on a loan made to the corporation, at a rate of interest exceeding RSC Regulations. In fiscal year 1985, the president loaned the corporation \$75,000 at an interest rate of 12%. During fiscal year 1986, the corporation charged interest of \$8,965 on the RSC 1100 cost report, Schedule #17 for this loan. The 12% exceeded the allowable RSC rate of 8.5% for related party transactions during fiscal year 1986. Interest payments at that rate would have been \$6,347. This resulted in excess interest expense of \$2,617.
- Q. The provider listed interest expense, on its RSC 1100 cost report, of \$2,441 on the \$22,500 used to "purchase" the client lists noted in finding N. The provider "purchased" these lists of clients from HSRC, Inc. for \$22,500 during fiscal year 1985. These two corporations were related as outlined in finding F. This transaction should have been recorded as a related party transaction on the provider's financial statements and the RSC 1100 cost report. The provider president could not provide an explanation of why these client lists would be considered an asset for purchase and subsequent amortization.
- R. The financial statements of the Habilitation Assistance Corporation, audited by Richard E. Bloodgood, C.P.A., indicated a (\$13,618) accumulated deficit as of June 30, 1986. This deficit included net income of \$1,647, which accrued during fiscal year 1986.

Total revenues received by the provider for this same period amounted to \$1,247,478, of which \$1,221,533 was generated by DPW, DMH and MCB contracts. Of the \$25,945 generated from other fee-for-service payments, all was from client fees.

EOHS agency revenues received by the provider, \$1,221,533, represented 98 percent of total income, while other fee payers for service represented two percent of total income.

EOHS/OAA requested that DPW negotiate an administrative agreement with Habilitation Assistance Corporation which addresses findings A, D, E, H, I and J in accordance with the provider's response as contained in the report. In addition, DPW was asked to review Findings G and O for appropriateness of recovery of funds. EOHS/OAA also requested that RSC review findings K, L, M, N, P and Q to compute the impact of incorrect and overstated costs on fiscal year 1988 rates, if any, and to determine what administrative actions are appropriate. DPW, DMR and MCB were requested to review the entire report to determine if they would continue to place clients or contract with the provider. In addition, finding C was referred to the Secretary of State and findings F, G and N were referred to the Department of the Attorney General and the Office of the Inspector General for appropriate action. It should be noted that findings B and F have been referred to the Internal Revenue Service and the Department of Revenue. All findings have been referred to all parties for informational

purposes.

Auditee Name:

**Hampshire County Home
Care Services, Inc.
243 King Street
Northampton, MA 01061**

Audit #: 0-548-87

Hampshire County Home Care Services, Inc., a non-profit corporation, maintained a supplemental food program for women, infants, and children and a health care support program during the audit period. The provider contracted with the Department of Public Health and was audited for the fiscal year ended June 30, 1986. A summary of the audit report findings, to which the provider chose not to respond, is as follows:

- A. The provider did not file the 1986 Annual Report with the Secretary of State's Office as required.
- B. The provider submitted a fiscal year 1986 RSC 1100 Cost Report which included the following inaccuracies:
 - 1. The provider did not disclose related party relationships between itself and both Easthampton Visiting Nurses Association, Inc. and Homemakers Services of Hampshire County, Inc. The provider coordinated the fiscal and program management of both of these organizations. These relationships accounted for \$272,512, or seventy-four (74) percent, of the provider's financial activity.
 - 2. The provider submitted a fiscal year 1985 RSC 1100 Cost Report form instead of the fiscal year 1986 form. This error resulted in the omission of data required on new or revised schedules, several of which would have reported on the related party situation noted in B-1.
- C. The financial statements of Hampshire County Home Care Services, Inc., audited by KMG Main Hurdman, Certified Public Accountants, indicated a (\$4,949) fund deficit comprised of a (\$12,198) operating fund deficit, and a \$7,249 plant fund as of June 30, 1986. This deficit included excess expenses over income of (\$15,149), which accrued during fiscal year 1986.

Total revenues received by the provider for this same period amounted to \$367,247, of which \$94,378 was generated by a Department of Public Health contract. Additionally, \$272,512 was received from management fees and \$357 was received from miscellaneous sources.

EOHS agency revenues received by the provider, \$94,378, represented 26 percent of income. The remaining revenues represented seventy-four percent of income.

EOHS/OAA requested that RSC review finding B to determine what effect, if any, it had on fiscal year 1988 reimbursement and what administrative action was appropriate. In addition, the Secretary of State was requested to review finding

A to determine what action was appropriate. The Secretary of State subsequently notified the provider that its Annual Report filings were deficient. All findings were referred to DPH for informational purposes.

Auditee Name:

**Harbor Health Services, Inc.
398 Neponset Ave.
Dorchester, Ma. 02122**

Audit #: BC-571-87

Harbor Health Services, Inc., a non-profit corporation, was one of four organizations (including Carney Hospital, the Dorchester/Mattapan Community Mental Health Center, Inc. and Peaceful Movements Committee, Inc.) which formed a consortium to provide a network of out-patient alcohol treatment, crisis intervention and alcohol education programs throughout the Dorchester/Mattapan area during the audit period. The providers contracted with the Department of Public Health and were audited for the year ended June 30, 1984. A summary of the audit report findings pertaining to Harbor Health Services, Inc. resulting from the EOHS/OAA review is as follows:

- A. There were several significant weaknesses noted in the provider's internal controls.
- B. The provider did not maintain its accounting records by contract as required.
- C. The provider had applied to DPH for a license to maintain a clinic at its premises for 1985. However, the Department of Public Health had not completed the licensing review or issued a new license as of June 5, 1987. Because the license had not been issued, the provider was operating an unlicensed clinic.
- D. The provider's records of employees' time could not be traced to the actual contracts as required.
- E. The provider overbilled DPH \$407, for fringe benefits. The personnel costs used to compute fringe benefit reimbursement incorrectly included payments to consultants.
- F. Under contract terms, the Division of Alcoholism was the payor of last resort. In a case where the third party insurance coverage was exhausted, a client should have been re-classified as "self-pay" and the sliding fee scale should have been used to determine the service fee. The balance due after the assessment of a sliding fee would then have been billable under the DOA contract. HHS did not follow this procedure. According to the Director of the Mental Health Department, when third party payments were exhausted, services rendered were charged entirely to the DOA contract. A sliding fee scale was not used.
- G. The financial statements of Harbor Health Services Inc., audited by Creelman & Smith, P.C., indicated a \$1,383,352 fund balance as of June 30, 1984. This balance included excess expenses over revenues of (\$10,990) which accrued during fiscal year 1984.

Total revenues and support received by the provider for this same period amounted to \$1,379,866, of which \$41,830 was generated by DPH contracts.

Fee-for-service revenues totaling \$799,633 were generated from patient service fees, private insurance, Medicaid, and Medicare. Of the \$517,417 in grants received, \$442,193 was from U.S. Public Health Service, \$65,831 from the City of Boston, and \$9,393 from other health programs. Additionally, \$117,286 was generated from donated services and \$3,700 from other operating revenues.

EOHS agency revenues received by the provider, \$41,830, represented 3 percent of total income while other fee payors for patient service represented fifty-eight percent of total income. The remaining revenues represented thirty-nine percent of total income.

EOHS/OAA requested that DPH negotiate an administrative agreement with Harbor Health Services, Inc., which addresses all findings.

Auditee Name:

**Harrington Memorial
Hospital, Inc.
100 South St.
Southbridge, Mass. 01550**

Audit #: C - 436 - 87

Harrington Memorial Hospital, Inc., a non-profit corporation, provided a variety of outpatient mental health, alcohol counseling, and early intervention services to clients during the audit period. The provider contracted with the Department of Mental Health and the Department of Public Health and was audited for the year ended June 30, 1986. A summary of the audit report findings is as follows:

- A. The provider allocated direct expenses by program and not by contract as required.
- B. The financial statements of Harrington Memorial Hospital, Inc., for the year ended September 30, 1986, audited by Ernst & Whinney/Certified Public Accountants, indicated a fund balance of \$13,521,450 in the General Fund. This balance included an excess of revenue over expenses of \$1,482,601 for the fiscal year ended September 30, 1986.

Total revenue received by the Hospital for the same period amounted to \$18,827,330, of which approximately \$850,000 was supported by EOHS agency contracts. The remaining revenue was generated from Medicaid, Blue Cross, Medicare, private insurance companies and self-paying individuals for providing inpatient and outpatient acute care services.

EOHS agency revenues received by the provider, \$850,000, represented approximately 4.5% of total revenue. The remaining revenue, which represented ninety-five and one half percent of total revenues, was derived from other fee payers for service.

EOHS/OAA requested that DMH negotiate an administrative agreement with Harrington Memorial Hospital, Inc. which addresses finding A. Findings A and B were referred to DPH and RSC, and finding B to DMH, for informational purposes.

Auditee Name:

**Haverhill / Newburyport Human Services, Inc.
86 Essex Street
Haverhill, MA**

Audit #: 0-320-87

Haverhill/Newburyport Human Services, Inc. operated five residences for mentally handicapped adults and contracted with the Department of Mental Health during the audit period. The provider was also the representative payee for many of the twenty-five clients enrolled in the residential program, and the client funds were audited by EOHS/OAA for the fiscal year ended June 30, 1986. A summary of the audit findings is as follows:

- A. Many significant weaknesses were noted in the provider's internal controls regarding the maintenance of client funds, including the failure of the provider to maintain adequate records to allow for a complete audit. In its response, the provider stated that it had corrected many of these deficiencies.
- B. The provider maintained funds for twenty-five clients at five residences. As noted in A above, many deficiencies were noted regarding the maintenance of client funds. A review of the audit findings for the twenty-five clients revealed that many records were missing, including checkbooks, bankbooks, bank statements, transaction sheets, canceled checks and pay stubs. This condition was in violation of DMH Regulations for the maintenance of client funds.
- C. From the limited records that were available, auditors were able to determine that misappropriation or theft of at least \$2,455 in client funds had occurred. A more detailed explanation of this finding is included in findings D-1 and D-2.
- D. Auditors reviewed individual client accounts maintained for twenty-five clients at five residences operated by the provider. The provider was required to maintain client transaction sheets detailing all disbursements, regardless of amount, and also was required to maintain receipts supporting all purchases over \$25 made on behalf of clients. As noted in B above, client transaction sheets were not always available. More seriously, auditors noted that receipts were not available for many purchases made over \$25 as required by DMH Regulations. The following represents a summary, by client (the number corresponds to the number used in the audit report), of the lack of documentation available to support purchases on behalf of clients. *Client numbers that are missing represent accounts that had documentation to support purchases, therefore, recovery of funds is not warranted.*
 - 1. Six checks totaling \$587 were endorsed by and/or made out to an employee of the provider, and four of those checks contained the employee's bank account number as part of the check endorsement. One check written to this employee was listed in the check register as \$150 but the bank statement indicated that the check had been

processed for \$200.

2. Thirty-five checks totaling \$1,868 were made out to this client or an employee of the provider. These checks were endorsed by the same employee noted in D-1 above, using three separate last names and one bank account number.
3. A comparison of withdrawals for the four quarters of fiscal year 1986 revealed that withdrawals from this client's account for the quarter, January through March, were substantially larger than the average of the other three quarters. The average figure for each of the four quarters was \$486; the withdrawals for January through March quarter totalled \$1,621.
4. Thirty-eight of forty-two checks written from this client's account were made out to cash (totaling \$665), and there were no receipts to support purchases for the entire fiscal year.
5. Twenty-six of thirty-two checks written from this client's account were made out to cash (totaling \$392), and there were no receipts to support purchases for the entire fiscal year.
6. A savings account maintained by the provider for this client indicated that of the \$696 in non-rental withdrawals made, \$634 could not be traced to receipts or supporting documentation. In addition, there were two \$400 money orders drawn on this account which could not be traced to supporting documentation.
7. A withdrawal of \$700 was made from this client's account which could not be traced to supporting documentation.
8. Expenditures of \$1,072 made from this client's account could not be traced to supporting documentation.
10. Expenditures of \$295 made from this client's account did not have proper supporting documentation.
11. Expenditures of \$1,099 made from this client's account could not be traced to supporting documentation.
12. There were no records at all for this client; therefore disbursements could not be reviewed.
15. No documentation existed for \$334 of disbursements made from this client's account.
17. Expenditures of \$2,368 made from this client's account could not be traced to supporting documentation.
18. Expenditures of \$626 made from this client's account could not be traced to supporting documentation.

21. Expenditures of \$468 made from this client's account could not be traced to supporting documentation.
23. Expenditures of \$294 made from this client's account could not be traced to supporting documentation.
24. Expenditures of \$356 made from this client's account could not be traced to supporting documentation.
25. There was no documentation at all for this client; therefore disbursements could not be reviewed.

EOHS/OAA requested that DMH negotiate an administrative agreement with Haverhill/Newburyport Human Services, Inc., which addresses all issues cited in the audit in accordance with the provider's response as contained in the report. In addition, the administrative agreement should address the immediate repayment of \$2,455 to the clients noted in finding C, and the appropriateness of recovery of all funds noted in finding D. EOHS/OAA also requested that the Attorney General's Office, the Office of the Inspector General, and the Executive Office of Human Services, Office of General Counsel review findings C and D for determination of appropriate action.

Auditee Name:

**Charles W. Hogan Regional Center and John T. Berry
Rehabilitation Center
Department of Mental Health
P.O. Box 50
Hathorne, Mass 01937**

Audit #: 87-247-1

The Charles W. Hogan Regional Center and John T. Berry Rehabilitation Center are organizations within the Department of Mental Health. The Centers provided retardation and rehabilitation services to retarded persons in the North Shore area during the audit period. The Centers were audited by the Auditor of the Commonwealth for the period July 1, 1986 to December 31, 1986. A summary of the audit findings is as follows:

- A. Two significant weaknesses were noted in the Berry Center's internal controls pertaining to the Patients' Fund accounts.
- B. A variance of \$8,035 existed in the records of the Berry Center's Patients' Funds Account between the bank balance and the sum of the balances recorded on the ledger cards. The Center acknowledged that this variance existed, and that \$5,600 of the variance was the result of a theft. The Legislature recently appropriated funds totaling \$5,599 to be used to bring the account into balance.
- C. Balances in excess of \$250 per client in the patients' accounts at both Centers were retained in non-interest bearing group checking accounts.
- D. Neither of the Centers' Gift Fund cashbook balances agreed with the account balances.
- E. Interest earned in the Gift Funds at both Centers was not recorded in the cashbooks on a monthly basis.
- F. Seven disbursements totaling \$485 from the Gift Funds were not recorded in the cashbook during July and August of 1986.
- G. Disbursements tested from the Gift Funds lacked the necessary supporting invoices or payment receipts in many instances at the Hogan Center and in all instances at the Berry Center.

The responses submitted on behalf of both Centers acknowledged the weaknesses cited, and stated that they were the result of staff turnover and the inability of existing staff to complete their job assignments successfully.

EOHS/OAA requested that DMH develop and submit for review a written plan of action to address all findings. In addition, the Attorney General, the Inspector General and the EOHS/OGCI were requested to review finding B and take appropriate action. DMH submitted a written plan of action which addressed all findings. It should be noted that the person responsible for the theft cited in

finding B was prosecuted by the Essex County District Attorney, as a result of a referral by the Center.

Auditee Name:

**Interseminarian-Project
Place, Inc.
32 Rutland Street
Boston, MA 02118**

Audit #: 0-205-87

Interseminarian-Project Place, Inc., a non-profit corporation, operated a drop-in center, counseling services, and a telephone hotline during the audit period. The provider contracted with DPH, DPW and DSS and was audited by EOHS/OAA auditors for the fiscal year ended June 30, 1986. A summary of the findings contained in the report is as follows:

- A. There were two weaknesses noted in the provider's system of internal controls.
- B. The provider did not fully disclose the payment of \$2,747 in health insurance benefits to a related party consultant on the required Attorney General's Public Charities Form for fiscal year 1986. The consultant was a member of the provider's board of directors.
- C. The provider did not file IRS Forms 1096 and 1099 for two consultants during calendar year 1985, as required. Total payments to these consultants amounted to \$3,584.
- D. The provider did not file a 1986 Annual Report with the Office of the Secretary of State, as required. In its response, the provider indicated that it had since filed.
- E. The provider maintained inadequate documentation for \$9,360 of consultant expenditures during fiscal year 1986.
- F. The provider's accounting books and records were not maintained to allow adequate tracing of expenses by program and contract, as required.
- G. The provider did not maintain an adequate allocation method to support \$220,971 of programmatic expenditures during fiscal year 1986, as required.
- H. The provider maintained a personnel policy whereby an employee received four (4) weeks of paid vacation after one (1) year of employment. This policy resulted in \$4,594 of questionable expense.
- I. A review of the provider's financial statements for the fiscal year ended June 30, 1986 revealed the following deficiencies:
 - 1. The financial statements did not contain a compliance letter or segment giving independent assurance that the provider's financial record-keeping practices complied with the requirements in Attachment C of the Standard DSS Purchase Agreement.

2. The financial statements did not contain a comparative balance sheet as required by the DSS Guidelines for Financial and Compliance Audits of Agencies Contracting with the Department of Social Services.

- J. Based upon additional review of schedules 19 and 22 of the fiscal year 1986 RSC 1100 Cost Report, it was determined that the provider incurred a net deficit in EOHS contracts during the fiscal year of twelve (12) percent. Of the four state-funded programs, the provider incurred deficits in three programs. In programs receiving DPH, DPW, and DSS revenue totalling \$135,928, the provider had a (\$33,030) net deficit. However, as noted in (F) and (G) above, the auditors were not able to verify the provider's method of expense allocation.
- K. The financial statements of Interseminarian-Project Place, Inc., audited by Ellie Rozinsky, CPA, indicated a \$185,396 fund balance comprised of a (\$1,781) operating fund deficit and a \$187,177 capital fund balance, as of June 30, 1986. This balance included excess income over expenses of \$108,946 which accrued during fiscal year 1986.

Total revenues received by the provider for this same period amounted to \$425,571, of which \$135,928 was generated by DPH, DPW, and DSS contracts. Other fee-for-service payments of \$10,719 were received under the public-private partnership program from Community Development Block Grant Funds. Additionally, \$278,924 was received by the provider from donations, in-kind contributions, City of Boston Grant, FEMA, rental income, and interest income.

EOHS agency revenues received by the provider, \$135,928, represented 32 percent of total income, while other fee payers for service represented three percent of total income. The remaining revenues represented sixty-five percent of total income.

EOHS/OAA requested that DPH negotiate an administrative agreement with Interseminarian-Project Place, Inc. which addressed findings A, C and E in accordance with the provider's response. DSS was asked to enter into an administrative agreement which addressed findings F and I in accordance with the provider's response. DPH, DSS and DPW were asked to review finding J to identify the circumstances or practices which caused the deficits, and the manner in which the information has been or will be taken into account in prospective contract negotiations to prevent such circumstances or practices from causing recurrence of such variances. RSC was asked to review finding H and compute the impact of disallowed costs on the fiscal year 1988 rates, if any, and determine if any administrative action is appropriate. RSC was also asked to review finding G to determine if administrative action was appropriate to address the provider's lack of an allocation method. EOHS/OAA also requested that the Department of the Attorney General review finding B and that the Office of the Secretary of State review finding D. Finding C has been referred to the Internal Revenue Service and the Massachusetts Department of Revenue. All other findings have been referred to all listed agencies for informational purposes.

It should be noted that the Attorney General, the Secretary of State, and the Internal Revenue Service have responded to EOHS/OAA referrals. In addition,

RSC made an initial response on which additional information was requested.

Auditee Name:

**Massachusetts Mental Health Center
Department of Mental Health
74 Fenwood Road
Boston, MA 02115**

Audit #: 87-258-1

The Massachusetts Mental Health Center is an organization within the Department of Mental Health. The Center provided mental health services at three sites in Boston during the audit period. The Center was audited by the Auditor of the Commonwealth for the fiscal years ended June 30, 1985 and 1986. A summary of the audit findings is as follows:

- A. One significant weakness was noted in the Center's internal controls.
- B. In the Gift Fund, numerous disbursements made by cash and checks were not supported by back-up documentation. Of the \$30,071 tested, only 35 percent, \$10,449, was adequately documented.

In a prior audit report by the Auditor of the Commonwealth, for fiscal years 1983 and 1984, inadequate documentation was cited as a weakness in several other funds. According to the Auditor, documentation was adequate in the other funds tested as a follow-up to the prior audit.

- C. Disbursements totaling \$531 made from the Gift Fund did not directly benefit the Center's employees and patients. The Center received donations from private citizens and organizations on behalf of the Commonwealth, and should have disbursed these funds only for the benefit of its employees and patients.
- D. Disbursements of \$2,440 were made from the Gift Fund for a computer and a printer without competitive bidding or prior approval from the Executive Office for Administration and Finance (EOAF), as required.
- E. The Center did not establish with the State Treasurer and Receiver General an expendable trust fund into which donations to the Gift Fund should have been deposited, as required.

The Center's Director of Support Services stated that because of the problems with the Gift Fund, management decided to eliminate the Gift Fund in December, 1986.

- F. During the audit period, the Center did not comply with the Commonwealth's rules for depositing income on a timely basis as required. The Auditor calculated that the untimely deposits resulted in at least \$5,921 of lost interest annually, based on an average of annual receipts and approximately one month's interest at a rate of 5 percent. This deficiency had been noted in the prior audit report of fiscal years 1983 and 1984.

- G. 1. The Center improperly paid \$1,565 of fiscal year 1986 maintenance expenses with fiscal year 1985 funds specifically reserved for patients' entertainment and recreation. At the end of fiscal year 1985, the Center encumbered more funds than were needed for entertainment and recreation and then paid these maintenance expenses against the encumbered funds.
2. Additionally, at the end of fiscal year 1985, there was a reserve balance in the Lab Supplies and General Care Account which should have been reverted to the Commonwealth's General Fund. However, the Center's management used the excess funds to purchase items more properly classified as Repair and Equipment, for which inadequate funds existed.

Both of these actions were in violation of the Commonwealth's encumbrance procedures.

- H. The Center did not follow the legislative process for requesting deficiency appropriations for unpaid bills incurred in prior fiscal years as described in the Comptroller's Accounting Manual, Section 4. The Center paid a total of \$2,092 from fiscal year 1986 maintenance appropriations for costs incurred in fiscal year 1985, and \$176 in funds from fiscal year 1985 for costs incurred in fiscal year 1984.

In its response, the Center indicated that it had instituted corrective measures to follow the legislature's budgetary process, as described in the Comptroller's Accounting Manual.

EOHS/OAA requested that DMH develop a written plan of action to address all findings. The EOAF Office of the General Counsel was requested to review finding D to take whatever action is appropriate.

Auditee Name:

**Massachusetts Treatment Center at Bridgewater
Department of Mental Health
Bridgewater, MA 02324**

Audit #: 87-497-1

The Massachusetts Treatment Center at Bridgewater is an organization controlled by the Department of Mental Health. The Center was audited by the Auditor of the Commonwealth for the period July 1, 1986 to December 31, 1986. A summary of the findings contained in the report, issued on October 21, 1987, is as follows:

- A. Several significant weaknesses were noted in the Center's internal controls.
- B. The Center did not deposit cash receipts for the Patient, Gift Shop, Canteen, and Club Account funds on a daily basis, as required.
- C. The Center could not distinguish unclaimed patient accounts from other funds held on deposit. As a result, the Center did not remit unclaimed patient funds of \$665, as of March 31, 1987, to the State Treasurer, as required.
- D. The Center maintained the Patient, Canteen, Gift Shop, and Club Account funds in non-interest-bearing checking accounts. This resulted in a loss of approximately \$1,170 in interest income for the six month audit period. This same finding had been reported in an earlier audit report, and had not been corrected as of the end of field work. In its response, the Center said it was in the process of transferring these funds to interest-bearing accounts.

EOHS/OAA requested that DMH submit a written response describing actions taken since the issuance of the report to address these findings.

Auditee Name:

**MCI-Boston Pre-Release Guidance Center
Department of Correction
P.O. Box 678
Dorchester Center Station
Dorchester, MA 02124**

Audit #: 86-835-1

The Massachusetts Correctional Institution-Boston Pre-Release Guidance Center is an organization within the Department of Correction. The Center was operated as a residential facility, to which inmates from various correctional institutions, who were within 18 months of parole, could be transferred to finish their sentences. The facility was audited by the Auditor of the Commonwealth, for the period July 1, 1984 to June 30, 1986. A summary of the findings contained in the report, issued on October 30, 1987, is as follows:

- A. There were two significant internal control findings.
- B. Property and equipment inventory records maintained by the Center lacked sufficient information to accurately identify and control the Center's equipment and physical property.
- C. The Center's management of inmate accounts and house funds disclosed a lack of sufficient documentation to support inmate room and board collections, totalling \$230,557, during the audit period, and house fund receipts and disbursements.
- D. The Center had no written documentation to support the rental of a heating boiler for \$30,000 per year, or the payment of \$50,000 to DMH for food for fiscal year 1986.

EOHS/OAA requested that DOC submit a written response describing actions taken to address these findings, since the issuance of the report.

Auditee Name:

**MCI-Cedar Junction
Department of Correction
P.O. Box 100
South Walpole, MA 02071**

Audit #: 87-152-1

Massachusetts Correctional Institution-Cedar Junction is an organization within the Department of Correction. The facility operated as a prison during the audit period, and was audited by the Auditor of the Commonwealth for the period July 1, 1984 to June 30, 1986. A summary of the finding contained in the audit report, issued June 30, 1987, is as follows:

The institution adjusted its inventory downward by \$18,810 as a result of the quarterly inventory counts of food items for two fiscal years. The \$18,810 was the difference between the book inventory and the actual quarterly inventory count. The institution had not been able to determine the reasons for the inventory variances and did not notify the Department of Correction Central Office of the variances. The Comptroller's Accounting Manual requires agency divisions to notify the Central Office of inventory shortages exceeding \$100.

EOHS/OAA requested that DOC submit a written response describing actions taken to address this finding, since the issuance of the report.

Auditee Name:

**MCI-Framingham
Department of Correction
Western Avenue
Framingham, MA 01701**

Audit #: 87-148-6

Massachusetts Correctional Institution-Framingham is an organization within the Department of Correction. MCI-Framingham was audited by the Auditor of the Commonwealth for the period July 1, 1984 to June 30, 1986. A summary of the findings contained in the report, issued on October 22, 1987, is as follows:

- A. Abuse of sick time resulted in overtime being used more than would otherwise have been necessary. The Auditor noted that thirty-two percent of the guards at MCI-Framingham used an average of 16.5 sick days in fiscal year 1986 and accounted for 62% of the total sick time used by all of the guards.
- B. MCI-Framingham did not identify equipment by serial number, failed to tag all pieces of property and equipment, did not include \$14,884 worth of data processing equipment on its inventory listing, failed to adhere to procedures in effect to tag and record the assigned location of newly purchased items when received, and did not adhere to established procedures for tracking old items that had been replaced, disposed of, or assigned to new locations. In addition, the Auditor noted that MCI-Framingham purchased \$34,676 worth of equipment from non-equipment accounts in violation of the Comptroller's Accounting Manual.

EOHS/OAA requested that DOC submit a written response describing actions taken to address these findings, since the issuance of the report.

Auditee Name:

**MCI-Norfolk
Department of Correction
Main St., P.O. Box 43
Norfolk, MA 02056**

Audit #: 87-150-1

The Massachusetts Correctional Institution-Norfolk is an organization within the Department of Correction. The facility operated as a prison during the audit period, and was audited by the Auditor of the Commonwealth for the period July 1, 1986 to January 31, 1987. A summary of the finding contained in the report, issued on October 30, 1987, is as follows:

MCI-Norfolk did not forward inmate funds to the State Treasurer or to other DOC facilities in a timely manner as required. This same finding was also noted in a prior audit report and had not been corrected.

EOHS/OAA requested that DOC submit a written response describing actions taken to address this finding, since the issuance of the report.

Auditee Name:

**MCI-Park Drive Pre-Release Center
Department of Correction
107 Park Drive
Boston, MA 02215**

Audit #: 86-927-1

The Massachusetts Correctional Institution-Park Drive Pre-Release Center is an organization within the Department of Correction. The Center is a residential facility whose objective was to facilitate inmate re-integration from a structured prison environment to an independent community environment through participation in work release, education release, and furlough programs. The Center was audited by the Auditor of the Commonwealth for the fiscal years ended June 30, 1984 and 1985. A summary of the audit findings is as follows:

- A. Several significant weaknesses were noted in the Center's internal controls.
- B. The Center's payroll procedures were inadequate. In addition, the Department of Correction Central Office engaged in a practice of charging salaries to Centers with which the employee may have had no direct working relationship. As a result of these conditions, described in detail below, the validity of \$950,000 paid for salaries during the audit period could not be determined.
 - 1. In addition to the absence of properly prepared and approved weekly time sheets, the Center had no attendance reports to support payroll expenditures or entries to employee attendance calendars for all of fiscal year 1984.
 - 2. The Department of Correction (DOC) charged approximately \$120,000 to the Center's payroll within the two year audit period for three DOC employees directly assigned to the DOC Shattuck Hospital Correctional Unit and the DOC Central Administrative Office. The Center could not provide supporting payroll records for these employees to show they performed work for the Center. In its response, the Center stated that one Shattuck Hospital employee continued to be paid on the Center's payroll.
- C. Contrary to terms of the lease agreement between the Department of Correction, lessee, and 107 Park Drive Trust, lessor, the Center assumed the responsibility of the lessor in performing repairs, and expended approximately \$8,000 in state funds, plus the value of inmate labor, for building repairs during the audit period.
- D. Auditors noted the presence of an old inoperative elevator at the Center which posed a safety hazard due to ease of access to the shaft on each floor. At the time of audit, the Center could not provide written evidence to indicate that either the lessor or DOC had been notified that the elevator was not in service. According to the lease terms, the lessor had responsibility for elevator repairs.

- E. The Center lacked proper inventory controls for equipment and supplies. A prior audit of the fiscal year ended June 30, 1981 had disclosed that the Center had not maintained a materials (food) and housekeeping supplies ledger and had not taken a physical inventory of these items.

During the audit period, the Center's supporting records were still not current or complete, even though the Center spent \$102,000 of Commonwealth funds for these items. There were no stock ledgers, inventory reports and adjustment sheets maintained, or periodic physical inventories taken during the fiscal year, in violation of DOC and Comptroller guidelines for the management of materials and supplies. Additionally, a DOC Internal Audit Report, dated October 28, 1985, found further weaknesses.

- F. The review of the Inmate Account System revealed the following conditions:

1. As of June 30, 1985, there were cumulative variances of \$1,400 between the control cards and the cashbook for the Inmate Account, in violation of DOC policy. This issue had been cited in a prior audit. In its response, the Center stated that the variance had been resolved and the records are checked regularly and balanced.
2. A total of \$658 from 14 inmates' accounts which were unclaimed for more than two years were retained by the Center, in violation of the Massachusetts General Laws and DOC policy. In its response, the Center stated that the unclaimed funds have been returned to the State Treasurer, as required.
3. Thirteen inmates owed the Center a total of \$323 for more than two years, yet the Inmate Account Report of June 30, 1985 listed the balance as zero.
4. Worksheets for room and board deductions were incomplete and contained errors and omissions. No supporting information was maintained to substantiate gross wages earned by work-release inmates, from which room and board deductions were computed. In its response, the Center stated that worksheets now are supported by documentation.
5. Funds that belonged to inmates such as savings were commingled with funds that belonged to the Center (Resident Fund) in a single bank account. This practice could result in inaccurate figures of room and board revenue receipts due the Commonwealth or other misuses of the inmate and resident funds. In its response, the Center stated that this issue had been corrected.

- G. The Center maintained a Resident Fund for the benefit of the inmates residing at 107 Park Drive. For the audit period, the Fund had \$47,000 in receipts, including \$15,000 in deductions withheld from inmate wages. The Auditor concluded that this deduction from inmate wages was in violation of MGL Chapter 127, Sections 48 and 86F which specified the deductions which could be made from inmate earnings. However, DOC policy number 405 authorized DOC's correctional facilities to operate Resident Funds and allowed voluntary work-release deductions "agreed upon by the inmate".

The Center's Resident Orientation Manual, which was not approved by DOC, required each inmate to contribute to the Resident Fund, with the amount "determined by the resident's pay..."

- H. During the audit period, the Center's compensation payments for cadre inmate services exceeded approved appropriated funding and lacked written authorization from the Commissioner for the amount of compensation paid. The Center paid \$25,125 for cadre services, of which \$9,125 was funded by the Center's maintenance appropriation, and the remaining \$16,000 was funded by the Resident Fund. MGL Chapter 127, Section 48A stated that "subject to appropriation from the General Fund, the commissioner shall establish a system of compensation for inmates...", whereas, DOC policy 103 PAR 405, "Inmate Funds" authorized correctional institutions to establish a Resident Fund and to use the fund to supplement inmate wage payments. The practice of charging the Resident Fund for cadre wages understated the actual cost of cadre wages and distorted the Center's budgetary requirements.
- I. Due to weaknesses in the accounting system, the Center did not limit its expenditures to authorized funding. For fiscal year 1985, DOC authorized MCI-Bridgewater to pay \$762 of the Center's incurred costs.
- J. Bank interest of \$159 earned on state funds, and vending machine commissions of \$7,160, were not transferred to the State Treasurer as income in violation of the Comptroller's Accounting Manual.
- K. The Center allowed non-inmate personnel to consume meals prior to payment, and sold individual meal coupons instead of the required meal tickets which contained ten meals, in violation of Administrative Bulletin No. 78-7.

EOHS/OAA requested that DOC develop and submit for review a written plan of action to address all findings. EOHS/OAA requested that EOHS Office for Criminal Justice review findings G and H, and take whatever action is deemed appropriate. DOC submitted a written plan for review. EOHS/OCJ responded to findings G and H and asked EOHS, Office of the General Counsel to review the response submitted by DOC, which included a legal analysis supporting the use of the Resident Fund noted in finding G.

Auditee Name:

**MCI-Plymouth
Department of Correction
P.O. Box 207
South Carver, MA 02366**

Audit #: 87-151-1

Massachusetts Correctional Institution-Plymouth is an organization within the Department of Correction. The facility operated as a prison during the audit period, and was audited by the Auditor of the Commonwealth for the period July 1, 1984 to June 30, 1986. A summary of the findings contained in the report, issued on October 22, 1987, is as follows:

- A. The audit revealed a number of deficiencies in internal controls and in the maintenance of state funds:
1. The institution did not maintain a general ledger to record and summarize transactions, as required by the State Comptroller's Accounting Manual.
 2. The institution did not reconcile revenue shown in its monthly statement of receipts to the State Comptroller's Monthly Estimated and Actual Revenue Statements, as required by the State Comptroller's Accounting Manual.
 3. The institution failed to make deposits on a timely basis. The State Comptroller's Accounting Manual requires that deposits be made on a daily basis. In its response, the institution stated that it now makes deposits daily.
 4. The institution did not have a time clock to record employee hours. In its response, the institution stated that a time clock had been installed.
 5. The institution did not have IRS W-4 payroll forms to issue to employees as required by federal and state taxing authorities. As a result, inaccurate amounts may have been deducted from employee's paychecks. In its response, the institution stated that it currently updates payroll forms annually.
- B. The Auditor noted thirteen occasions, during June, 1986, on which inmate funds were not deposited in the bank on a daily basis, as required by MGL Chapter 30, Section 27.
- C. The institution adjusted its inventory downward by \$28,547 as a result of the quarterly inventory counts of food items for two fiscal years. The \$28,547 was the difference between the book inventory of \$199,652 and the actual quarterly inventory count of \$171,105. The institution has not been able to determine the reasons for the inventory variances and did not notify the Department of Correction Central Office of the inventory variance. The Comptroller's Accounting Manual requires agency divisions to notify the Central Office of inventory shortages exceeding \$100.

EOHS/OAA requested that DOC submit a written response describing actions taken to address these findings, since the issuance of the report.

Auditee Name:

**Montachusett Regional Young Men's Christian Association, Inc.
55 Wallace Street
Fitchburg, MA 01201**

Audit #: 0-545-87

Montachusett Regional Young Men's Christian Association, Inc., a non-profit corporation, operated four programs providing child care to families during the audit period. The provider contracted with the Department of Social Services and was audited for the fiscal year ended June 30, 1986. A summary of the audit findings is as follows:

- A. Several weaknesses were noted in the provider's internal controls. In its response, the provider stated that it had corrected some of the deficiencies.
- B. The provider's financial statements did not include a Statement of Functional Expenses, a liability for accrued vacation pay, and a compliance segment offering independent assurance that financial record keeping practices were in compliance with DSS Guidelines, all of which are required.
- C. The provider failed to allocate expenses by contract or program as required.
- D. A sample of client records noted that client attendance sheets were not maintained to document \$397 for three clients billed to the Commonwealth during the month of December, 1985. In addition, client ledger cards did not indicate the services or period for which client payment was being made, and did not include the outstanding balance as required by the DSS Day Care Manual. Furthermore, client files did not contain a fee agreement or client eligibility information needed to calculate a sliding fee as required by the DSS Contractor's Manual.
- E. The provider's budgeted contract amount for indirect costs exceeded the allowable rate by 10 percent. The rate, which was 21.25 percent, was not accompanied by an explanation and justification statement, which was required per the Instructions to the RSC 600B program budgets.
- F. Auditors noted that rates paid to employees differed from wages negotiated per the RSC 600B, including two employees who were paid less than the budgeted amount. One employee was paid \$1.47 per hour less than the negotiated amount and another employee was paid \$4.52 per hour less. Due to the high turnover of employees, the total variance could not be computed.
- G. The provider misused as much as \$150,313 of its restricted endowment fund principal by transferring it to the unrestricted operating fund during years when the operating fund incurred deficits. As of the close of field work, July 31, 1987, the provider had returned \$64,438 to the endowment fund and there was still \$84,875 of outstanding endowment funds. This condition was in violation of MGL Chapter 180, Section 9.

- H. DSS contracts that included classroom furnishing expenditures, totaling \$4,000, did not contain the required RSC Capital Budget Form. According to provider personnel, neither the provider nor DSS was aware of the requirement. This condition was in violation of the EOHS Procurement and Contracting Manual for Social and Rehabilitative Services.
- I. The audited financial statements of Montachusett Regional YMCA, Inc., audited by Venning & Jacques, PC, Certified Public Accountants, indicated a \$2,374,295 fund balance comprised of a (\$112,044) operating fund deficit, a \$2,011,012 plant fund, and a \$475,327 endowment fund as of December 31, 1986. This balance included excess income over expenses of \$51,899 which accrued during calendar year 1986.

Total revenue received by the provider for this same period amounted to \$1,300,318, of which \$210,839 was supported by DSS contracts. Of the \$838,760 generated from other fee-for-service payments, \$523,621 was from program service fees and \$315,139 from membership dues. Additionally, \$250,719 was received from the United Way, donations, gains on securities and investment income.

EOHS agency revenue received by the provider, \$210,839, represented 16 percent of total income, while other fee payors for service represented sixty-five percent of total income. The remaining revenue represented nineteen percent of total income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Montachusett Regional Young Men's Christian Association, Inc. which addresses all deficiencies noted in accordance with the provider's response as contained in the report. EOHS/OAA also requested that DSS review the provider's response to findings E and H, and if the assertions made are correct, take appropriate action to ensure that area office personnel are aware of contracting regulations. DSS was requested to review finding D to determine if recovery of funds is appropriate. Finding G was referred to the Attorney General's Office, Division of Public Charities, to take appropriate action. Findings G and I were referred to the Executive Office of Human Services, Office of Contracts Management, to determine if this provider should be in the Early Warning System/Vendor Assistance Program. All findings were referred to RSC for informational purposes.

Auditee Name:

**Northeastern Family Institute, Inc.
27 Cherry Street
Danvers, MA 01923**

Audit #: 87-1080-5

Northeastern Family Institute, Inc., a non-profit corporation, provided comprehensive community-based programs to youths during the audit period. It maintained shelter care, foster care, outreach counseling, and community-based preparation programs through funding from the Department of Youth Services. It also received funding from the Department of Mental Health, the Department of Social Services, the Department of Education, and the Massachusetts Rehabilitation Commission. The provider was audited by the Auditor of the Commonwealth for the fiscal year ended June 30, 1986. A summary of the audit findings contained in the report is as follows:

- A. The provider was awarded a one-year DYS cost reimbursement "start-up" contract to begin to provide a new community-based preparation program of residential, educational, and clinical services. According to the contract, fourteen (14) clients were to receive these services during the full term of the agreement. However, because of problems related to the location and preparation of the new program site, the only service provided was on the last day of the contract period, for two clients. The provider was reimbursed a total of \$103,226 for administrative and direct-care payroll expenses, rent, repairs, utilities, and office and training expenses through this contract. The Auditor concluded that the DYS contract should have contained clear, measurable, and relevant objectives which more accurately reflected the agreement, duties, and responsibilities of the parties.
- B. During fiscal year 1986, the provider paid \$119,441 to Community Program Services, Inc. (CPSI), for the lease of four (4) buildings, eleven (11) motor vehicles, and computer equipment and support services. The executive director of NFI was the president and treasurer of CPSI on its January 2, 1979 incorporation date. This individual resigned from the CPSI positions during 1980. The CPSI corporate offices are located in property owned by the executive director of NFI.

During an audit of NFI for fiscal year 1985, the Rate Setting Commission determined that these two corporations were related parties per RSC Regulations. The RSC notified NFI in December of 1987 that it believed a related party relationship existed; however, as of the date of the review by the Auditor, RSC had not officially confirmed the relationship. The related party relationship was not disclosed on NFI's fiscal year 1985 RSC-1100 Cost Report. The Executive Director stated that it was his belief that the organizations had ceased to be related parties in 1980, as noted above, and therefore no disclosure on the Cost Report was required. The RSC has notified NFI that CPSI will be required to document all charges to NFI to determine that they had not exceeded allowable standards.

EOHS/OAA requested that DYS negotiate a written administrative agreement with Northeastern Family Institute, Inc. which addressed finding A in accordance

with the provider's response and the Auditor's recommendations as contained in the report. EOHS/OAA requested that RSC review finding B and describe the actions that have been taken with regard to the related party relationship.

Auditee Name:

**Our House, Inc.
139 Shelburne Rd.
Greenfield, Ma. 01301**

Audit #: 88-4007-3

Our House Inc., a non-profit corporation, provided a comprehensive community-based program of human services for juveniles during the audit period. The provider contracted with the Department of Youth Services, and was audited by the Auditor of the Commonwealth for the period July 1, 1985 to June 30, 1987. A summary of the audit finding is as follows:

The provider paid property taxes of a related party, Outreach Specialist, Inc., totalling \$1,535, which was a disallowed cost pursuant to RSC regulations. However, it was also noted that the provider understated its depreciation expenses on the RSC 1100 Cost Report.

EOHS/OAA requested that RSC submit a written response, describing actions taken to address this finding. In addition, this report was sent to DYS for informational purposes.

Auditee Name:

**Peaceful Movements Committee, Inc.
150 American Legion Highway
Dorchester, Ma. 02124**

Audit #: BC-571-87-A

Peaceful Movements Committee, Inc., a non-profit corporation, was part of a consortium of organizations that provided a network of out-patient alcohol treatment, crisis intervention, and alcohol education programs throughout the Dorchester/Mattapan area during the audit period. The provider contracted with the Department of Public Health and was audited for the year ended June 30, 1984. A summary of the audit report finding included the following:

The provider did not use certified alcohol counselors in all cases to treat clients, as required by the contract proposal.

EOHS/OAA requested that the Department of Public Health negotiate an administrative agreement with Peaceful Movements Committee, Inc., which addresses this finding.

Auditee Name:

**Rate Setting Commission
2 Boylston Street
Boston, MA 02108**

Audit #: 87-34-1

The Rate Setting Commission is an agency within the Executive Office of Human Services. It was responsible for establishing fair and reasonable rates that governmental units paid to health care providers, and establishing fair and adequate rates that state institutions charged for general health supplies, care, rehabilitation, or educational services and accommodations during the audit period. The Commission was audited by the Auditor of the Commonwealth for the period July 1, 1986 to March 31, 1987. A summary of the audit finding contained in the report, issued December 29, 1987, is as follows:

The Auditor reported that the Commission did not maintain an accurate mail log of revenue receipts. These revenues were generated from fees, revenue enhancements, and miscellaneous sources. Total deposits recorded for the audit period on the Massachusetts Management Accounting and Reporting System (MMARS) differed from the receipt log by \$157,493. Further review detailed the lack of timely deposits of Commission revenue. During the period from July 1, 1986 to December 31, 1986, the Commission made one deposit. That deposit totaled \$216,377, \$157,834 of which had been received the previous June. In excerpts from the Commission's response contained in the Auditor's report, it was stated that the reason for the variance in revenue was that the ledger reviewed was not considered the primary source of revenue recognition. It was stated that the Commission maintained a journal which contained the source of revenue, date of receipt, check number and amount. Subsequent review of this journal determined that it lacked the date of receipt. The Auditor concluded that the Commission's revenue recording practices and its untimely deposit of revenues were in violation of the Comptroller's Accounting Manual.

EOHS/OAA requested that RSC respond in writing, describing the actions taken to address the weaknesses noted above since the issuance of the report.

A response was subsequently received from RSC, in which it detailed a new cash receipts system, under which it had received and deposited over \$10 million on the day of receipt since February, 1988. This included new personnel and procedures. RSC also had requested the Auditor to conduct another audit of its new system, to verify that the issue had been effectively addressed.

Auditee Name:

**Lemuel Shattuck Hospital
Department of Public Health
170 Morton Street
Jamaica Plain, MA 02130**

Audit #: 87-300-1

The Lemuel Shattuck Hospital is an organization within the Department of Public Health. The Hospital and medical research center provided diagnostic and therapeutic management of patients with acute and chronic illnesses, and also operated active training and research programs, during the audit period. The Hospital was partially funded by the Department of Public Health and was audited by the Auditor of the Commonwealth for the fiscal years ended June 30, 1985 and 1986. A summary of the audit findings is as follows:

- A. Many significant weaknesses were noted in the Hospital's internal controls. Some of those weaknesses were also cited in an audit report conducted by EOHS/OAA for fiscal year 1985.
- B. The Hospital did not maintain adequate control over the patient fund accounts, into which money was deposited for the purchase of personal items for long-term patients. The Auditor noted that some cash requisition slips had been altered to higher amounts, resulting in the misappropriation or theft of at least \$10,485 from the patient fund account. Poor recordkeeping resulted in the Auditor's inability to determine the balance of the patient fund account. Three recordkeeping sources maintained by the Hospital listed the patient funds balance as three different amounts.
- C. The Hospital could not determine its accounts receivable balance for the two fiscal years ended June 30, 1985 and 1986 due to its poor recordkeeping procedures. While Hospital records reported accounts receivable of \$19,889,253, the Auditor noted that this was incorrect because accounts did not properly reflect balances of patient accounts and uncollectible accounts. Although the Hospital instituted a new computerized accounting system, the Hospital did not actively pursue delinquent accounts receivable, including unpaid bills from self-payors or co-insurance, and deductibles not paid by insurance. In addition, the Hospital had not followed up on some insurance claims for which payments were denied. Hospital officials stated that they did not know the amount of revenue the Hospital lost each year because it had not made a concerted effort to collect payment from every billable patient.
- D. The Hospital did not keep complete and current inventory records or tag equipment for identification, as required by Section 28 of the Comptroller's Accounting Manual. During fiscal year 1985 the hospital expended \$107,910, and during fiscal year 1986 \$702,782, mainly for computer equipment, clinical equipment and construction materials. Except for 32 tagged items totalling \$74,537, auditors were unable to reconcile actual inventory on hand to the purchase orders, or standard invoices to the inventory of electrical equipment.

- E. The Hospital expended \$8,600 from the canteen fund for items such as postage and malpractice insurance. A DPH memorandum on the canteen fund stated that the fund should have been used for emergency expenditures less than \$500, to ensure safe, quality services, and to meet the health and safety needs of patients and staff. In addition, only one authorized Hospital official signed the checks for these expenditures, contrary to DPH regulations which required two signatures.
- F. The Auditor noted a number of deficiencies concerning the use of advance funds by the Hospital. The Hospital did not perform required reconciliations which resulted in the Hospital being unaware that, as of June, 1986, the State Treasurer was holding \$19,766 in advance funds for the Hospital. The Hospital had not documented the expenditure of advance funds in accordance with the Comptroller's regulations. As of June 30, 1986, the Hospital was unable to account for \$7,278 of advance funds from fiscal years 1985 and 1986. In addition, because the Hospital did not file Return of Advance forms on time, the Comptroller's records indicated that as of June 30, 1986 the Hospital had not accounted for \$339,516 of advance funds expended during fiscal years 1984, 1985, and 1986. The Auditor determined that the Hospital used \$11,382 of advance funds from fiscal year 1984 for expenditures in fiscal year 1985, in violation of Comptroller's regulations. The Auditor also determined that the Hospital experienced a deficit of (\$10,217) in advance funds during fiscal year 1985.
- G. The Hospital paid \$1,386,693 in fiscal year 1985, and \$973,328 in fiscal year 1986 for medical service contracts (consultants) without first reviewing their timesheets. Although timesheets were not submitted with the corresponding standard invoices as required by DPH regulations, the chief of medical services signed the standard invoices. As a result, the Hospital paid one physician \$18,464 for three months during which, because of illness, he did not work.

EOHS/OAA requested that DPH develop and submit for review a written plan of action to address all findings, which ensured that the \$10,485 noted in finding B has been returned to clients. In addition, the plan of action was to address recovery of the \$18,464 noted in finding G.

Auditee Name:

**Soldiers' Home-Chelsea
91 Crest Avenue
Chelsea, MA 02150**

Audit #: 86 - 65 - 1

The Soldiers' Home-Chelsea is a state-operated veterans' home and hospital, within the Executive Office of Human Services. It was audited by the Auditor of the Commonwealth for the period July 1, 1983 through June 30, 1985. A summary of audit findings contained in the report, issued May 11, 1987, is as follows:

- A. There were several weaknesses noted in the Home's internal control system.
- B. Based upon a comparison of average billings to third parties during the period 1977 to 1979, the Home potentially lost revenues totaling approximately \$5.4 million. These third parties included Medicare, Medex, Blue Cross/Blue Shield, private insurers, and patients. The Home attributed this potential loss to staff shortages and its inaccurate records.

The Auditor recognized the improvement noted in both the Home's billings and financial management in the report.

- C. Based upon a review of the Home's admission records for the skilled nursing facility, it was determined that 75% of its patients appeared to be eligible for assistance under the Medicaid (Title XIX) program. The Auditor estimated that participation in this program could provide \$1.1 million in annual revenue. According to the Home's response, it has applied for enrollment in the Title XIX program.
- D. The following conditions were noted in the Home's medical consultant billings:
 - 1. The Home made \$123,655 in payments to medical consultants in the eighteen months prior to June 30, 1985. These payments were not traceable to adequate registration documentation which would help support that the consultants performed the required work. Medical consultants' payments, at a rate of \$75 to \$85 a visit, were made based on a minimum of one and one-half to three hour visits during any one day. Consultants were required to record the time they entered and left the facility. The Home paid \$83,720 to consultants who failed to register arrival and departure times; \$24,660 to consultants who did not register departure times; and \$15,275 to consultants whose visits were less than the one and one-half hour minimum for a one day visit.
 - 2. It was a practice of the Home to pay consultants \$25 an hour for any visit beyond the three hours. It was noted in several instances, however, that consultants were paid the additional \$25 an hour for some visits in excess of the three hours, even though they were also

paid the full amount for other visits which in fact was less than the one and one-half hours minimum.

3. In two instances, consultants were paid at rates exceeding the rates specified in their contracts. One individual, whose contract rate was \$85 per one and one-half to three hours visit, received \$2,400 at \$135 per visit, \$50 of which was not paid by the Commonwealth but rather from other sources. Another individual, whose contract specified the same rate, received \$1,675 at \$110 per visit, \$25 of which was not paid by the Commonwealth. Total payments above the contractual amount was \$4,075. None of the approximately \$9,800 paid to these two individuals was traceable to the required registration documentation.

- E. During the eighteen months prior to June 30, 1985, the Home expended \$124,191 out of approximately \$300,000 in interest income, obtained from resident funds which were maintained by the home. It was an option of the patients to have their funds maintained by the Home and any interest income which would accrue would be retained by the Home. This interest income was to be used to benefit the Home's membership at large. The \$124,191 was expended for hospital, patient, and staff needs.
- F. The Home maintained donated trust funds, a large portion of which was derived from resident funds. During the eighteen months ending June 30, 1985, the Home expended approximately \$350,000 of these funds. There were, however, no specific guidelines for expenditures from these funds.
- G. The Home did not maintain adequate control over its inventory. This poor maintenance of inventory control was noted in a prior Auditor's report covering the period July 1, 1981 through February 1983.

EOHS/OAA requested that the Soldiers' Home-Chelsea respond in writing describing actions taken to address each of the weaknesses cited since the issuance of the report.

The Soldiers' Home promptly submitted a response which adequately addressed all issues. Further, the Home has requested the State Auditor to conduct another audit to verify that all issues have been corrected.

Audittee Name:

**Dr. Harry C. Solomon Mental Health Center
Department of Mental Health
391 Varnum Avenue
Lowell, MA 01852**

Audit #: 87-250-5

The Dr. Harry C. Solomon Mental Health Center, a community mental health center under the control of the Department of Mental Health, provided services to clients with varying degrees of chronic mental illness and mental retardation during the audit period. The Center was audited by the Auditor of the Commonwealth for the period of July 1, 1986 to March 31, 1987. A summary of the audit findings is as follows:

- A. The Auditor noted that the Center had not consistently collected revenues from inpatient and outpatient self-paying clients, and had not maintained a proper billing system to pursue all potential revenues. Additionally, miscellaneous receipts, which consisted of revenues from the sale of meals to employees and clients, had decreased because the Center had not required payment for the meals. The Auditor concluded that the inadequate billing system and the loss of miscellaneous fees resulted in the failure to pursue a potential of \$249,598 in additional revenue, and impeded collection of \$206,615 that was outstanding and collectible as of the close of field work. The loss of revenue in miscellaneous revenues totalled a maximum of \$7,672.

Center personnel stated that it did not concentrate its resources on collecting self-paying fees because the potential for generating significant revenues was low. Both the Auditor and the Center indicated that inadequate staff in the billing department contributed to this problem. In its response, the Center stated that it had corrected part of this problem by assigning one staff person to inpatient billing, and that increased staff and a computerized management information system was needed to completely correct the billing deficiencies. In its response concerning miscellaneous fees, the Center stated that employees would be required to purchase meal tickets from the business office. However, ambulatory patients and groups consisting of outpatient clients, community support services, and other groups would not be charged for meals as part of the service provided.

- B. The Center acted as a representative payee for inpatient and outpatient clients. The Auditor concluded that the Center lacked adequate controls to ensure that each patient's receipts and disbursements were properly documented. For example, the cashbook for outpatient and inpatient funds had not been posted for nine months, numerous client disbursements (totalling \$5,621) were not supported by adequate backup documentation, actual cash and patient bank account balances varied from both the individual client ledger cards and the running balance on the receipts maintained by the Center. Furthermore, expense budgets for outpatient clients were not included in the clients' accounting files, and receipts and disbursements were not accurately recorded on the clients' ledger cards. As a result, the Auditor could not verify that all client funds were used

appropriately. In its response, the Center stated that it had assigned a cost accountant to administer and record the representative payee accounts.

- C. The Auditor reviewed several areas of the Center's general administration in which deficiencies had been cited in the prior audit report for the fiscal year ended June 30, 1984. The areas in which deficiencies continued to be noted included the maintenance of the special funds cashbook (including posting daily activities and performing monthly cash reconciliations), depositing revenue, and reimbursing employees for travel. For example, the Auditor concluded that both patient fund and canteen fund transactions were not posted to their respective cashbooks on a current basis. Additionally, the Center did not reconcile these cashbooks to the cash records of the State Treasurer monthly. Furthermore, the Center had not deposited cash receipts with the State Treasurer on a timely basis as required. Travel reimbursed to employees was not supported by adequate documentation, and in some instances, reimbursement was in excess of the Comptroller's mileage guide.

EOHS/OAA requested that DMH submit a written plan of action to address the deficiencies cited, in accordance with the Center's response as contained in the report.

Auditee Name:

**Southeastern Correctional Center
Department of Correction
10 Administration Road
Bridgewater, MA 02324**

Audit #: 87-990-1

The Southeastern Correctional Center is a facility within the Department of Correction for inmates who have been transferred from overpopulated correctional institutions during the audit period. It was audited by the Auditor of the Commonwealth for the period July 1, 1984 to June 30, 1986. A summary of the audit finding contained in the report, issued August 8, 1987, is as follows:

The Center did not maintain a formal cash management policy requiring all local trust fund money to be kept in interest-bearing accounts. The Auditor estimated that this condition resulted in \$5,860 of lost interest income.

The Center's response contained within the Auditor's report stated that the Center would implement a cash management policy with regard to the deposit of funds. It also stated that some of the funds in question had been transferred to interest-bearing accounts, and that the transfer of the remainder was pending.

EOHS/OAA requested that DOC respond in writing, describing the actions taken to address the weakness noted above since the issuance of the report.

Auditee Name:

**Tewksbury Hospital
Department of Mental Health
East Street
Tewksbury, MA 01876**

Audit #: 87-304-5

Tewksbury Hospital was maintained by the Department of Public Health to provide care for the chronically ill during the audit period. The Hospital was audited by the Auditor of the Commonwealth for the period July 1, 1984 to June 30, 1986. A summary of the audit findings contained in the report, issued August 21, 1987, is as follows:

- A. Two weaknesses were noted in the Hospital's internal controls.
- B. A review of the Hospital's billing system for the fiscal years 1985 and 1986 revealed the following conditions:

1. During the two year audit period reviewed, the Hospital did not bill for all Medicare Part B physician and ancillary services provided. The Hospital billed for \$134,891 out of a potential of \$974,345 in ancillary services, leaving \$839,454 unbilled. It did not bill for \$297,341 of physician services. The total, \$1,136,795, represented potential revenue unrealized by the Hospital.

In its response, the Hospital stated that it was in the process of attempting to recover all unbilled amounts. It had billed all units since January, 1986 and was part of a DPH effort, through a consultant, to retroactively bill for all physician and ancillary services as far back as October, 1984.

2. The Hospital did not follow up on any claims denied by Medicaid. As a result, billings were not resubmitted during the audit period. According to the Hospital, this practice was the result of inadequate billing staff.
- C. As part of this audit, the Auditor performed a review of conditions noted in a previous audit report to determine if they had been resolved. The review revealed the following:
1. The Hospital had gained control over its "03" contract expenditures per Auditor recommendations.
 2. The Hospital had resolved a suspense account receivable balance of \$35,025, which had been carried on its records since June 30, 1982, by writing it off.
 3. The Hospital still was not maintaining accurate records for its patients' funds accounts. Patients' funds should have been maintained in both a non-interest bearing checking account and individual interest-bearing saving accounts. The checking account should have been

used to maintain minimum balances, by client, to cover their expenses. Any surpluses should have been transferred to the individuals' savings accounts. Transfers between these accounts should have been recorded in a cashbook supported by ledger accounts maintained by individual. Since May 1982, these records had not had the following controls performed:

- a. There had been no reconciliation of the patients' funds accounts.
- b. Surpluses were retained in the checking account. This practice deprived the clients of interest income.
- c. Individual patient ledger accounts were not updated to reflect interest earned. This in turn left the cashbook out of balance.
- d. Individual savings accounts did not reflect amounts withdrawn.

Because of the above-noted deficiencies, the Hospital had no system to insure that individual patient savings had not gone above the ceilings for benefit eligibility.

The Hospital stated, in its response, that it had corrected all deficiencies noted subsequent to the audit report.

- 4. The Hospital was still deficient in several inventory control areas, as follows:
 - a. Equipment received at the loading dock was not properly tagged.
 - b. There were many items of untagged equipment.
 - c. Transfers of equipment within the Hospital were not properly recorded. This made the reconciliation of departmental inventories to the Hospital's master inventory impossible.

EOHS/OAA requested that DPH respond in writing, describing the actions taken to address the weaknesses noted and to verify that the stated corrective actions had occurred since the issuance of the report.

Auditee Name:

**Westborough State Hospital
Department of Mental Health
Lyman Street
P.O. Box 288
Westborough, MA 01581**

Audit #: 87-268-1

The Westborough State Hospital is an organization within the Department of Mental Health. The Hospital provided inpatient and outpatient services to the mentally ill during the audit period. The Hospital was audited by the Auditor of the Commonwealth for the period July 1, 1984 to June 30, 1986. A summary of the findings contained in the report, issued on September 29, 1987, is as follows:

- A. The Hospital's canteen fund recorded unreconciled variances in the inventory in all 24 months of the audit period.
- B. The Hospital had not updated its physical property and equipment inventory since 1984. The Auditor randomly tested the inventory by selecting new items purchased since 1984. Among the items that could not be located were six typewriters, two refrigerators, a washing machine and dryer, a video cassette recorder and a radio/tape player.
- C. Several variances were noted in the Pharmacy, between the physical counts and perpetual inventory cards, for both controlled and noncontrolled drugs.
- D. It was noted during the audit that the Hospital's stock ledger had not been posted since June 30, 1986.

EOHS/OAA requested that DMH submit a written response describing actions taken to address these findings, since the issuance of the report.

Auditee Name:

**Women's Services Center of
Berkshire County, Inc.
Pittsfield, MA 01201**

Audit #: 0-553-87

Women's Services Center of Berkshire County, Inc., a non-profit corporation, operated a program providing counseling, advocacy, shelter and support to women in crisis, addressing the emergency needs of battered and homeless women and their children during the audit period. The provider contracted with the Department of Social Services and was audited for the fiscal year ended June 30, 1986. A summary of the audit findings is as follows:

- A. The provider's records failed to allocate expenses to one DSS contract as required. In its response, the provider stated that DSS Area Office personnel instructed them to maintain the records by program and not by contract.
- B. The provider's financial statements did not contain certain provisions required by DSS contracts, including a Statement of Functional Expenses, a note disclosing the basis for accounting records, and a compliance segment offering independent assurance that financial record keeping practices were in compliance with DSS Guidelines.
- C. Accrued vacation expense was not identified in the liability section of the Balance Sheet in the audited financial statements. This resulted in an overstatement of the fund balance in the amount of \$16,142.
- D. The financial statements of Women's Services Center of Berkshire County, Inc., audited by Doherty and Stuart, CPA, indicated a \$112,598 fund balance as of June 30, 1986. This balance included excess expenses over income of (\$2,119) which accrued during fiscal year 1986.

Total revenues received by the provider for this same period amounted to \$493,379, of which \$136,664 was supported by a Department of Social Services contract. Of the \$342,516 generated from other fee for service payments, \$234,229 was from Bay State Skills Corporation, \$62,284 from the United Way, \$17,911 from the City of Pittsfield, \$9,500 from Berkshire Community College, \$1,999 from Franklin and Hampshire Counties, \$900 from Berkshire Community College, \$6,600 from Women's Economic Development Corp., \$374 from Small Business Workshops, \$2,244 from membership dues, \$1,584 from Program Service fees, \$4,371 from Berkshire Training and Employment Program, and \$520 from Hometown USA. Additionally, \$14,199 was received from contributions, fund raising, interest income and miscellaneous sources.

EOHS agency revenues received by the provider, \$136,664, represented 28% of total income, while other fee payers for service represented sixty-nine percent of total income. The remaining revenues represented three percent of total income.

EOHS/OAA requested that DSS negotiate an administrative agreement with the provider which addresses findings B and C in accordance with provider's response as contained in the audit report. EOHS/OAA also requested that DSS review finding A and determine if the DSS Area Office is providing incorrect information regarding maintenance of records. Finding D was referred to DSS and RSC for informational purposes.

SECTION XI:

GLOSSARY OF TERMS

Audit

An objective and independent critique of management operations and performance during a defined period. Governmental auditors examine not only books, records, and financial statements, but also review for (1) compliance with applicable laws and regulations, (2) economy and efficiency of operations, and (3) effectiveness in achieving program results.

Conflict of Interest

A conflict, for an individual, between loyalties owed to more than one source. Conflicts for state employees or persons paid under "03" contracts with state agencies are governed by G.L. c.268A, under the jurisdiction of the State Ethics Commission. Conflicts for employees of private organizations typically arise when the duties owed to the organization and/or its clients conflict with the financial interests of the individual.

Compliance with Terms of the Contract

EOHS has issued approved standard contract forms for all "03" and "07" contracting, and annually promulgates the EOHS General Conditions and the EOHS Procurement and Contracting Manual which are incorporated into the contracts (see below). Further, some contracting agencies have required that additional contracting conditions be included in the terms of the contract (e.g., DMH and DSS Contract or Audit Manuals or Guidelines). Compliance with all of these requirements is included in the broad definition of the "services" which the Commonwealth is purchasing through the contract, and the contracting party is required to comply with each term by general contract law, enforceable in court if necessary.

EOHS General Conditions

A set of generally applicable standard contracting principles, promulgated by EOHS for each fiscal year pursuant to the authority granted in G.L. c.6A, S16, and incorporated into every contract entered into by any human services agency reimbursed through subsidiary accounts "03" and "07", object codes 393 and 394.

Excess Revenue Over Expenditure ("Surplus Funds," so-called)

Those revenues derived as a result of the provider organization being reimbursed by the Commonwealth and/or by other funding sources in an amount

greater than the actual costs reasonably related to providing the services purchased.

Excess Expense Over Revenue ("Deficit")

Those revenues derived as a result of the provider organization being reimbursed by the Commonwealth and/or by other funding sources in an amount less than the actual costs reasonably related to providing the services purchased.

Financial and Compliance Audit

All Federal and most State and local governmental auditors (including EOHS/OAA staff) and contracted auditors (per the EOHS General Conditions) must adhere to the standards and procedures of Generally Accepted Government Auditing Standards (GAGAS), as promulgated by the Comptroller General of the United States. These Standards incorporate the AICPA industry standards and procedures and include additional standards and requirements. A financial and compliance audit would seek to determine, pursuant to these standards, (a) whether the internal financial statements of an audited entity present fairly the financial position and results of financial operations in accordance with Generally Accepted Accounting Principles (GAAP) and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements. In addition, the audit must report any material weaknesses encountered as a result of a study conducted of the organization's system of internal controls.

Fund Balance

Fund balance (or deficit) is a reflection of a non-profit organization's net worth (assets). This includes separately accounting for restricted and unrestricted resources. Restricted resources are funds or other assets either legally restricted by a donor or another outside party, or designated by the board for a specific purpose or use. Unrestricted resources are available for any legitimate use by the organization. When such resources, together with the related liabilities (debts) are accounted for separately, the separate set of accounts constitutes a fund, and the net assets in the fund are called the Restricted Fund Balance, or the Unrestricted Fund Balance. An organization may have several restricted and unrestricted funds. Total combined restricted and unrestricted fund balances taken as a whole comprise the organization's overall fund balance (or deficit).

Internal Control Findings

Internal control findings are those audit findings which address material weaknesses in the organization's plan, and all of the methods and measures adopted by it to safeguard its assets. This plan should provide built-in checks on the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to managerial policies. Generally Accepted Auditing Standards (GAAS) and General Accepted Government Auditing Standards (GAGAS) require certified public accountants privately hired

by the organization, as well as government auditors, to initially examine and evaluate an organization's system of internal controls on a current basis. The standards also require the auditor to disclose to the organization any material weaknesses encountered in its systems.

IRS, DOR, DES Filing Requirements

Requirements applicable to corporations or other business organizations, and the individual employees of such organizations, imposed by federal or state laws and regulations, under the jurisdiction of the Internal Revenue Service, the Massachusetts Department of Revenue, or the Massachusetts Division of Employment Security, regarding reports, returns, or other documents which must be filed with such agencies.

Program Results Audit

A program results audit seeks to determine (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved, and (b) whether the auditee has considered alternatives that might yield the desired results at a lower cost.

Public Charities Filing Requirement

Pursuant to G.L. c.12, Section 8F, all non-profit charitable corporations must annually file a form containing basic information with the Public Charities Division of the Department of the Attorney General. In addition, such organizations with gross annual revenues of \$100,000 or more must annually file certified audited financial statements.

Rate Setting Commission Cost Reports

These documents report actual costs incurred by a provider organization during the fiscal year. The cost report states the financial position and results of financial operations of the organization by providing a balance sheet and financial statements and schedules illustrated on a program basis (one program may be funded by several contracts). The report also includes numerous detailed schedules of selected costs and program questionnaires with additional requirements, including the reporting of all related party transactions and tax payments. RSC uses the cost report to establish rates of payment based on historical cost and as reasonable justification for those rates established prospectively. All cost reports must be certified under the pains and penalties of perjury by an officer of the organization.

Related Party Transactions

Financial transactions (e.g., leases, sales, loans) between two or more individuals and/or organizations which are associated or affiliated by common ownership or control. These are not per se illegal, unless a conflict of interest results. However, disclosure of such transactions by non-profit corporations is

required by the Rate Setting Commission, the Public Charities Division of the Department of the Attorney General, and the Internal Revenue Service, and failure to disclose as required may lead to imposition of appropriate sanctions. If costs included in related party transactions are reimbursed by the Commonwealth, then RSC can disregard the legal fiction and review the actual costs incurred by all parties as if they were one. For example, reimbursement prohibited by constitutional provisions (e.g., Anti-Aid Amendment, Credit Clause), such as principal payments on a mortgage on property owned by a private party, cannot legally be obtained by conveying the property to a second organization and "leasing" it back.
